



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

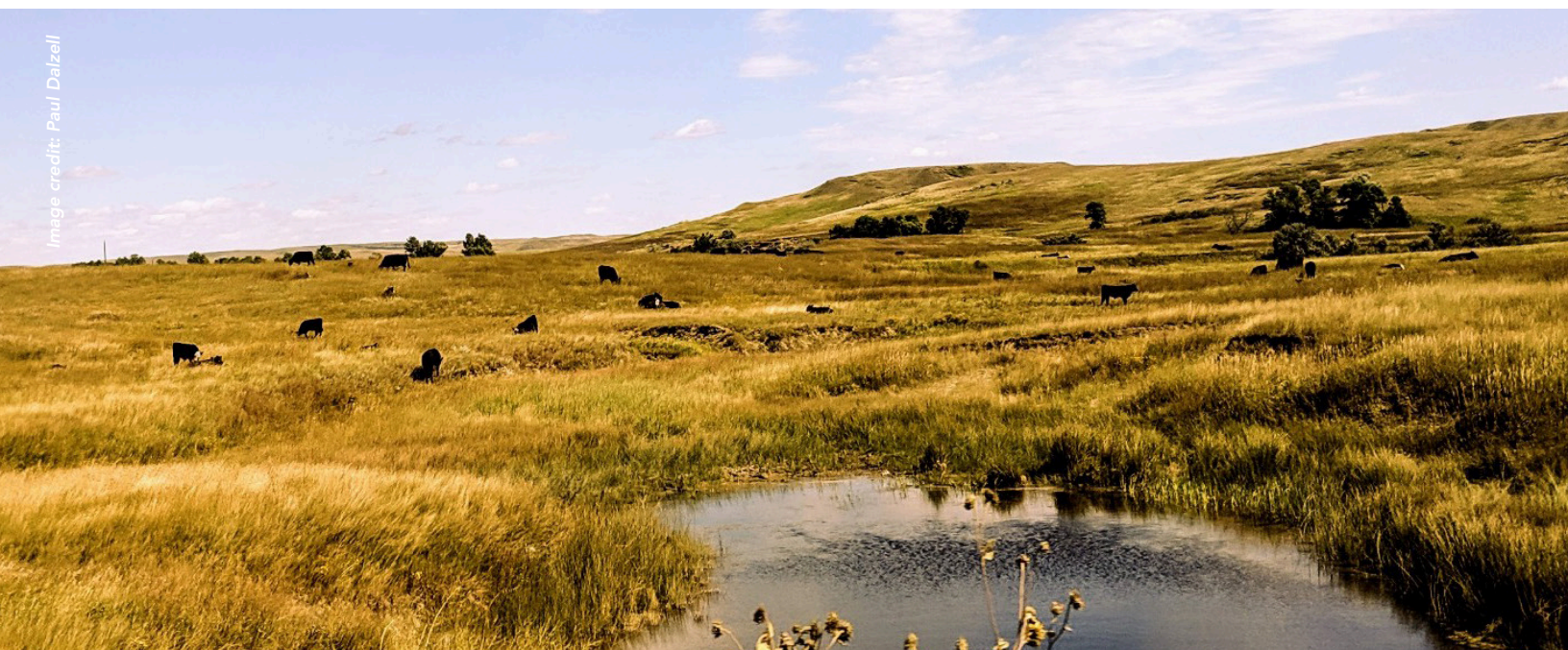
State Auditor Joshua C. Gallion

Comprehensive Annual Financial Report State of North Dakota

Governance Communication Including the Report on
Internal Control, Compliance, and Other Matters

Audit Report for the Year Ended June 30, 2019

Image credit: Paul Dalzell



KEY PERSONNEL

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Joe Morrissette, CPA, Director
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Contents

<i>Transmittal Letter</i>	1
<i>Executive Summary</i>	2
<i>Responses to LAFRC Audit Questions</i>	2
<i>LAFRC Audit Communications</i>	2
<i>Report on Internal Control and Compliance</i>	4
<i>Schedule of Findings, Recommendations, and Responses</i>	7
<i>Material Weaknesses</i>	7
<i>Significant Deficiencies</i>	7
<i>Lack of Required Note Disclosures</i>	7
<i>Noncompliance and Other Matters</i>	8
<i>Governance Communication</i>	9
<i>Audit Adjustments</i>	14
<i>Posted Audit Adjustments</i>	14
<i>Passed Audit Adjustments</i>	17
<i>Management Letter (Informal Recommendation)</i>	18

STATE AUDITOR
Joshua C. Gallion



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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

December 11, 2019

The Honorable Doug Burgum, Governor of North Dakota

Members of the North Dakota Legislative Assembly

Mr. Joe Morrissette, CPA, Director of Office of Management and Budget

I am pleased to submit our report on internal control, compliance, and other matters for the state of North Dakota. This report relates to the audit of the state's basic financial statements for the year ended June 30, 2019. This report on internal control, compliance, and other matters has been completed in accordance with *Generally Accepted Government Auditing Standards*, as issued by the Comptroller General of the United States.

Enclosed you will find our audit finding, governance communication, posted and passed audit adjustments, and management letter. These communications are required by auditing standards.

The audit manager for this audit was Allison Bader. Inquiries or comments relating to this audit may be directed to Ms. Bader by calling (701) 328-2241. I would like to express my appreciation to Mr. Morrissette and his staff for the courtesy, cooperation, and assistance they provided to our office during the audit.

Respectfully submitted,

/S/

Joshua C. Gallion
State Auditor

cc: Legislative Audit and Fiscal Review Committee
Chris Kadrmass, Legislative Council Fiscal Analyst

Executive Summary

Responses to LAFRC Audit Questions

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

Unmodified (clean) opinions were given on the state of North Dakota's financial statements.

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, except for the significant deficiency included in this report under "Schedule of Findings, Recommendations, and Responses."

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?

Yes. Action has been taken on prior audit findings related to "Improper Calculation of Net Investment in Capital Assets" and "Non-Descriptive State Special Revenue Fund Balance Classification." The "Lack of System Edit Checks for Medicaid Eligibility Verifications" were re-evaluated with internal controls and potential for material misstatement. The finding was not repeated.

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

Yes. We identified a deficiency that we reported to the management of the Office of Management and Budget. Our recommendation related to providing guidance to state agencies and monitoring financial reporting affecting federal fund balance for accounting errors to which management agreed to implement. See the management letter as listed in the table of contents of this report.

LAFRC Audit Communications

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

The most significant changes in accounting policies related to the adoption of the provisions of Government Accounting Standards Board (GASB) GASB 83 *Certain Asset Retirement Obligations* and GASB 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

There were no management conflicts of interest or significant unusual transactions noted. The state's commitments and contingencies are reported in Note 18 of the Comprehensive Annual Financial Report.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

Significant accounting estimates are discussed in the Governance Communication as listed in the table of contents of this report.

3. *Identify any significant audit adjustments.*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

The Posted Audit Adjustments schedule, as listed in the table of contents, lists misstatements detected as a result of audit procedures that were corrected by management.

The Passed Audit Adjustments schedule, as listed in the table of contents, summarizes uncorrected misstatements of the financial statements. These misstatements were likely errors based on projections to the related population. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

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

We did not have any disagreements with management.

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

We did not experience any serious difficulties in performing the audit.

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

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

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

While the Office of Management and Budget does employ consultants to assist in the preparation of the CAFR, we are not aware of any applicable management consultations with other accountants (such as "opinion shopping").

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

The PeopleSoft ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the operations of the state. There are numerous other high-risk systems which are identified in the individual agency biennial audit reports. None of the exceptions identified in the six audit report questions are directly related to these systems.



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Report on Internal Control and Compliance

Independent Auditor's 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*

The Honorable Doug Burgum, Governor of North Dakota
Members of the North Dakota Legislative Assembly

We have audited, in accordance with auditing standards general 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of North Dakota as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the state's basic financial statements and have issued our report thereon dated December 11, 2019.

Our report includes a reference to other auditors who audited the following entities, as described in our report on the state of North Dakota's financial statements:

Addiction Counselor Internship Loan Program	Job Service North Dakota
Bank of North Dakota	Mandan Remediation Trust
Beginning Farmer Revolving Loan Fund	Medical Facility Infrastructure Loan Program
Building Authority	PACE and AG PACE Funds
College SAVE	Public Employees Retirement System
Community Water Facility Loan Fund	Public Finance Authority
Comprehensive Health Association of North Dakota	Rebuilders Loan Program
Department of Trust Lands	Retirement and Investment Office
Development Fund	School Construction Assistance Revolving Loan Fund
Guaranteed Student Loan Program	State Fair Association
Housing Finance Agency	State Historical Society of North Dakota Foundation
Housing Incentive Fund	Student Loan Trust
Infrastructure Revolving Loan Fund	Workforce Safety and Insurance

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those

auditors. The financial statements of the North Dakota University System's foundations, that are reported as discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the state of North Dakota'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 the state of North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the state of North Dakota'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying *Schedule of Findings, Recommendations, and Responses* as item 2019-01 that we consider to be a significant deficiency. We noted another deficiency involving internal control that we have reported to the management of the Office of Management and Budget in a letter dated December 11, 2019.

Responses to Findings

The Office of Management and Budget's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings, Recommendations, and Responses*. These responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the state of North Dakota's financial statements are free of 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*.

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 state of North Dakota'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 state of North Dakota's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

December 11, 2019

Schedule of Findings, Recommendations, and Responses

Material Weaknesses

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Significant Deficiencies

We identified the following deficiency in internal control that we consider to be a significant deficiency.

Finding 2019-01

Lack of Required Note Disclosures

Condition:

The Office of Management and Budget does not have adequate procedures in place to ensure inclusion of required disclosures from component auditor reports in the Comprehensive Annual Financial Report (CAFR). The Bank of North Dakota audit report contained a note disclosure identifying \$1.47 billion of securities assigned as collateral for debt which was not included in the CAFR note disclosures as required by Governmental Accounting Standards Board (GASB) statement 88. In addition, the North Dakota University System audit report disclosed \$4 million of capitalized interest as required by GASB statement 62 which was not included in the CAFR note disclosures.

Effect:

There is potential for incomplete note disclosures and non-compliance with GASB requirements. The Office of Management and Budget revised the note disclosures to include the identified errors of this finding.

Cause:

The Office of Management and Budget has not designed adequate procedures to ensure the inclusion of required items from component auditor reports.

Criteria:

According to the "Standards for Internal Control in the Federal Government", management should identify, analyze, and respond to significant changes that could impact the internal control system. Management should also design control activities in response to the entity's objectives and risks to achieve an effective internal control system. (Green Book, GAO-14-704G para 9.01, 10.02)

GASB Statement 88, paragraph 5, states "a government should disclose in notes to financial statements summarized information about assets pledged as collateral for debt."

GASB Statement 62, paragraph 22, states that interest cost should be disclosed in the notes to the financial statements. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized should be disclosed.

Recommendation:

We recommend the Office of Management and Budget improve procedures to ensure disclosure of GASB reporting requirements from component auditor reports are included in the CAFR.

Office of Management and Budget Response/Corrective Action:

Although we agree with the auditors that the two disclosures were inadvertently not included in the notes to the financial statements and subsequently added after being brought to our attention, we do not feel the missing disclosures qualitatively affect the user's ability to understand the State's financial position and results of operation. Furthermore, we do not agree that the two missing note disclosures constitute a significant deficiency in internal controls. OMB will continue to work with the component units and their auditor reports to ensure all necessary note disclosures are included in the CAFR.

Auditor Concluding Remarks:

Annually, the Office of Management and Budget identifies in the CAFR the new GASB pronouncements that have been implemented including GASB 62 and GASB 88. Lack of procedures for including required disclosures resulted in incomplete application of the GASB pronouncements and failure to provide essential information related to debt to taxpayers, public officials, and others who use the CAFR and accompanying notes.

Noncompliance and Other Matters

We did not identify instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Governance Communication

December 11, 2019

Legislative Audit and Fiscal Review Committee
North Dakota Legislative Assembly

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of North Dakota for the year ended June 30, 2019, and have issued our report thereon dated December 11, 2019. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 to the financial statements. The most significant changes in accounting policies related to the adoption of the provisions of Government Accounting Standards Board (GASB) GASB 83 *Certain Asset Retirement Obligations* and GASB 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Implementation of GASB 88 resulted in the disclosure of residential, student, agricultural and commercial loans with carrying values of \$1.47 billion used as collateral to secure long-term advances of the Federal Home Loan Bank to the Bank of North Dakota.

Housing Finance changed its method of accounting for bond premiums and discounts from the straight-line method to the effective interest rate method. Accordingly, the cumulative effect of the accounting change as of the beginning of the year included a prior period adjustment of \$4.103 million and is reported in the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position.

Consistent with prior years, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Bank related assets and liabilities are reported in the Proprietary Funds Statement of Net Position.

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 prepared 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 estimates affecting the financial statements follow.

Management's estimate of the Medicaid liability is based on historical trends and analysis of individual components. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Allowance for loan losses and receivables are based on management's periodic review of their collectability in the light of historical experience, current and anticipated economic conditions, the nature of the receivable, adverse situations that may affect the borrower's ability to repay, and where applicable, the value of any collateral and loan guarantees. Other auditors and we evaluated the key factors and assumptions used to develop the allowance in determining the allowances were reasonable in relation to the financial statements taken as a whole.

Tax refunds payable are based on historical trends and analysis of individual components. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

For the State Investment Board, the valuation of alternative investments, including private equity and real asset investments, is a management estimate which is primarily based upon net asset values reported by the investment managers. Real asset investments comprise 16% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2019. Other auditor's audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, they reviewed management's estimate and found it to be reasonable.

For the Department of Trust Lands the fair value of investments is based on quoted market prices, estimates of fair value from investment managers, cash flow analysis, and yields currently available on comparable securities. Other auditors evaluated the key factors and assumptions used to develop the fair value estimate in determining it is reasonable in relation to the financial statements as a whole.

Also for the Department of Trust Lands, the estimate of unclaimed property liability is based on the historical average payout percentage per subsequent year to determine the current year liability. The historical average is based on a ten-year rolling average percentage of the total unclaimed property amounts collected during a specific fiscal year paid out in subsequent fiscal years. Other auditors evaluated the key factors and assumptions and checked the clerical accuracy of the spreadsheet used to determine the liability and determined that is reasonable in relation to the financial statements as a whole.

For the Housing Finance Agency, the fair value of investments is based on the exchange value of investments between two willing parties. Other auditors evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements as a whole.

Also for the Housing Finance Agency, the fair value of financial derivative instruments is based on the zero-coupon method and the discounted cash flow method. Other auditors evaluated the key factors and assumptions used to develop the fair value of the instruments in determining that it is reasonable in relation to the financial statements as a whole.

Job Service North Dakota estimates the amount of unemployment taxes, penalties, and interest that will be receivable and uncollectible. Management estimates the taxes, penalties, and interest at year-end by determining the amount of collections from July 1, 2019, to August 15, 2019. Other auditor's conclusion is based on the history of collections and subsequent payment of the receivables after year-end.

The actuarial valuations for retirement systems include management estimates that were based on the actuarial assumptions and methods adopted by the Public Employees Retirement System (PERS) Board, including an actuarial expected investment rate of return of 7.75% for the PERS, 7.75% for the Highway Patrolmen's Retirement System (HPRS), 7.25% for the Retiree Health Insurance Credit Fund (RHIC) and 4.75% for the retirement plan for employees of Job Services North Dakota (JSD).

The discount rate used for HPRS, RHIC and JSD was equal to their respective expected investment rate of return. The discount rate for PERS was a Single Discount Rate (SDR) of 7.50%. The SDR is required when assets are not projected to be sufficient to meet future benefit obligations. The SDR reflects (1) the expected investment rate of return on pension plan investments during the period in which the fiduciary net position is projected to be sufficient to pay benefits and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average Standard and Poor's Corp.'s AA credit rating as of the measurement date (3.13%), to the extent that the contributions for use with the long-term expected rate of return are not met.

In accordance with GASB 68, the total pension liability of the PERS, HPRS, and JSD were calculated with an actuarial valuation and measurement date of June 30, 2018. In accordance with GASB 75, the total OPEB liability of the RHIC was calculated with an actuarial valuation and measurement date of June 30, 2018. Other auditors evaluated the key factors and assumptions used to develop the estimate of the total pension and OPEB liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

The Teacher's Fund for Retirement's (TFFR) actuarial valuation was based on the actuarial assumptions and methods adopted by the TFFR Board, including an actuarial expected investment rate of return of 7.75% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2019, as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Other auditor's audit procedures included reviewing the actuarial valuation and related assumptions used therein and the auditors believe the estimate to be reasonable.

Management's estimate of the net pension liability is based on an actuary's calculation in accordance with the employment contracts. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

For the Bank of North Dakota (BND), the allowance for credit losses is maintained at an amount considered by management to adequately provide for probable losses in the loan portfolio at the statement of net position date. The allowance for credit losses is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic

conditions. Other auditors have evaluated the key factors and assumptions used to develop the allowance for credit losses in determining that it is reasonable in relation to the financial statements taken as a whole.

One of the Workforce Safety and Insurance's (WSI) most sensitive estimates is the liability for unpaid losses and loss adjustment expenses (LAE). The liability for unpaid losses and LAE is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims, and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computation also includes a 4.5% discount to report this liability at its estimated present value. Other auditors relied upon a third-party actuary review of the estimate as provided by WSI's actuary to ensure the estimate is reasonable.

WSI's dividend expense and related liability is calculated using the policyholder's prior year premium less any safety discounts awarded. This premium is an estimate based upon the previous year's actual payroll and is subject to change once the current year's actual payroll is known. As that becomes known, and the premiums are adjusted, so too will the dividend liability and expense be adjusted. Other auditors reviewed the assumptions and calculations used in determining the estimate to ensure the estimate is reasonable.

Difficulties Encountered in Performing the Audit

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

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial and communicate them to the appropriate level of management.

The Posted Audit Adjustments schedule, as listed in the table of contents, lists misstatements detected as a result of audit procedures that were corrected by management.

The Passed Audit Adjustments schedule, as listed in the table of contents, summarizes uncorrected misstatements of the financial statements. These misstatements were likely errors based on projections to the related population. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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 December 11, 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” in certain situations. If a consultation involves the application of an accounting principle to the governmental unit’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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the Office of Management and Budget.

Other Matters

We applied certain limited procedures to the management’s discussion and analysis, budgetary comparison schedules and related reconciliations and notes, and information about the state of North Dakota’s pension plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Legislative Audit and Fiscal Review Committee, the Legislative Assembly, and management of the state of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

/S/

Allison J. Bader
Audit Manager

Audit Adjustments

Posted Audit Adjustments

- To record grants receivable of the Department of Public Instruction.

Fund Statement Effect

Opinion Unit: Federal

Account	Debit	Credit
Intergovernmental Receivable	1,531,552	
Revenue from Federal Government		1,531,552

- To record an error in reporting of miscellaneous receivables from the Department of Human Services.

Fund Statement Effect

Opinion Unit: State Special Revenue

Account	Debit	Credit
Unavailable Revenues	5,949,705	
Accounts Receivable Current		5,949,705

Opinion Unit: State Special Revenue

Account	Debit	Credit
Unavailable Revenues	19,003,744	
Accounts Receivable - Allowances		19,003,744

- To record accounts payable of the Department of Human Services.

Fund Statement Effect

Opinion Unit: Federal

Account	Debit	Credit
IT-Other Contracting	798,831	
Accounts Payable		798,831

- To reclassify assets of the Department of Transportation as land that was incorrectly reported as infrastructure.

Entity-wide Statement Effect

Opinion Unit: Governmental Activities

Account	Debit	Credit
Infrastructure/Land Improvements	4,208,899	
Land		4,208,899

5. To record assets of the Department of Human Services.

Entity-wide Statement Effect

Opinion Unit: Governmental Activities

Account	Debit	Credit
Intangible Assets	760,056	
Buildings and Improvements	8,201	
Capital Outlay		768,257

Fund Statement Effect

Opinion Unit: General

Account	Debit	Credit
Capital Outlay	162,928	
Office Equipment Over \$5000		162,928

Opinion Unit: Federal

Account	Debit	Credit
Capital Outlay	605,329	
Office Equipment Over \$5000		605,329

6. To record fiscal year-end refunds payable of the Game and Fish lottery revenue.

Fund Statement Effect

Opinion Unit: State Special Revenue

Account	Debit	Credit
Game and Fish-Lottery	698,030	
Accounts Payable		698,030

7. To record fiscal year-end accounts payable of the Department of Public Instruction's foundation aid payments to school districts.

Fund Statement Effect

Opinion Unit: General

Account	Debit	Credit
Grants to School Districts	2,413,274	
Intergovernmental Payable		2,413,274

8. To record a correction of a data entry error of the miscellaneous receivables.

Fund Statement Effect

Opinion Unit: State Special Revenue

Account	Debit	Credit
Supervision Fees	4,445,238	
Bad Debt Expense		4,445,238

9. To record a correction in calculating the Tax Department's tax refunds payable.

Fund Statement Effect

Opinion Unit: State Special Revenue

Account	Debit	Credit
Tax Refunds Payable	672,139	
Income Tax-Individual		672,139

10. To record a correction in reporting of the Tax Department's fiscal year-end taxes receivable.

Fund Statement Effect

Opinion Unit: General

Account	Debit	Credit
Unearned Revenue	6,093,205	
Taxes Receivable		6,093,205

Opinion Unit: General

Account	Debit	Credit
Allowance for Uncollectible Taxes Receivable	3,638,253	
Unearned Revenue		3,638,253

11. To record deferred revenue of the Department of Human Services from the Federal government and reimbursable amounts due to the general fund.

Fund Statement Effect

Opinion Unit: Federal

Account	Debit	Credit
Prepaid Contributions	5,141,712	
Revenue from the Federal Government		5,141,712

Opinion Unit: Federal

Account	Debit	Credit
Salaries Full Time	4,055,429	
Due to Other Funds - Current		4,055,429

Opinion Unit: General

Account	Debit	Credit
Due from Other Funds - Current	4,055,429	
Salaries Full Time		4,055,429

12. To record a reduction in grants receivable of the Department of Human Services due to not including cash-on-hand at fiscal year-end.

Fund Statement Effect

Opinion Unit: Federal

Account	Debit	Credit
Revenue from Federal Government	31,231,107	
Intergovernmental Receivable		31,231,107

Passed Audit Adjustments

1. Projected likely misstatement of Medicaid claims paid in error. The potential audit adjustment relates to the Federal portion of the error that would be due back to the Federal granting agency.

Entity-wide Statement Effect

Opinion Unit: Governmental Activities

Account	Debit	Credit
Internal Receivable	2,482,812	
Internal Payable		2,482,812

Fund Statement Effect

Opinion Unit: General

Account	Debit	Credit
Grants to Individuals	2,482,812	
Due to Other Funds - Current		2,482,812

Opinion Unit: Federal

Account	Debit	Credit
Due from Other Funds - Current	2,482,812	
Grants to Individuals		2,482,812

2. Projected likely misstatement of accounts payable not properly reported by the Department of Human Services.

Entity-wide Statement Effect

Opinion Unit: Governmental Activities

Account	Debit	Credit
Health and Human Services Expenses	5,092,614	
Accounts Payable		5,092,614

Fund Statement Effect

Opinion Unit: Federal

Account	Debit	Credit
IT - Other Contracting	5,092,614	
Accounts Payable		5,092,614

Management Letter (Informal Recommendation)

December 11, 2019

Mr. Joe Morrissette, CPA, Director
Office of Management and Budget
State Capitol
600 E Boulevard Avenue
Bismarck, ND 58505

Dear Mr. Morrissette:

The Office of the State Auditor has completed its financial audit of the state's basic financial statements for the year ended June 30, 2019. As part of our audit, we gained an understanding of the internal control over financial reporting and tested compliance with laws and regulations to the extent we considered necessary. We have issued our report on internal control over financial reporting and compliance and other matters dated December 11, 2019.

Our audit procedures are designed primarily to enable us to report on the internal control over financial reporting and compliance with laws and regulations as they relate to the financial statements and may not bring to light all deficiencies in internal control or noncompliance with laws and regulations that may exist. We aim, however, to use our knowledge gained during our work to make comments and suggestions, which we hope will be useful to you.

In connection with the audit, we noted a certain condition that we did not consider reportable within the context of the audit report. This matter, which does not have a material effect on the financial statements, involves control deficiencies and/or instances of noncompliance with laws and regulations. The recommendation presented below is intended to improve or correct control deficiencies and/or noncompliance with laws and regulations. During future audit engagements, we will review the status of this recommendation to ensure that procedures have been initiated to address this recommendation. If no action has been taken, we will consider the appropriate course of action. Action could consist of inclusion in future audit reports.

The following presents our informal recommendation. Management agreed with the recommendation.

1. Federal Fund Balance Accounting Errors

We recommend the Office of Management and Budget implement guiding policies and procedures for state agencies and monitor financial reporting affecting federal fund balances during the preparation of the CAFR for identification of accounting errors.

I encourage you to call me at 701-328-2241 if you have any questions about the implementation of recommendations included in the audit report or this letter.

Sincerely,

/S/

Allison J. Bader
Audit Manager



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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