



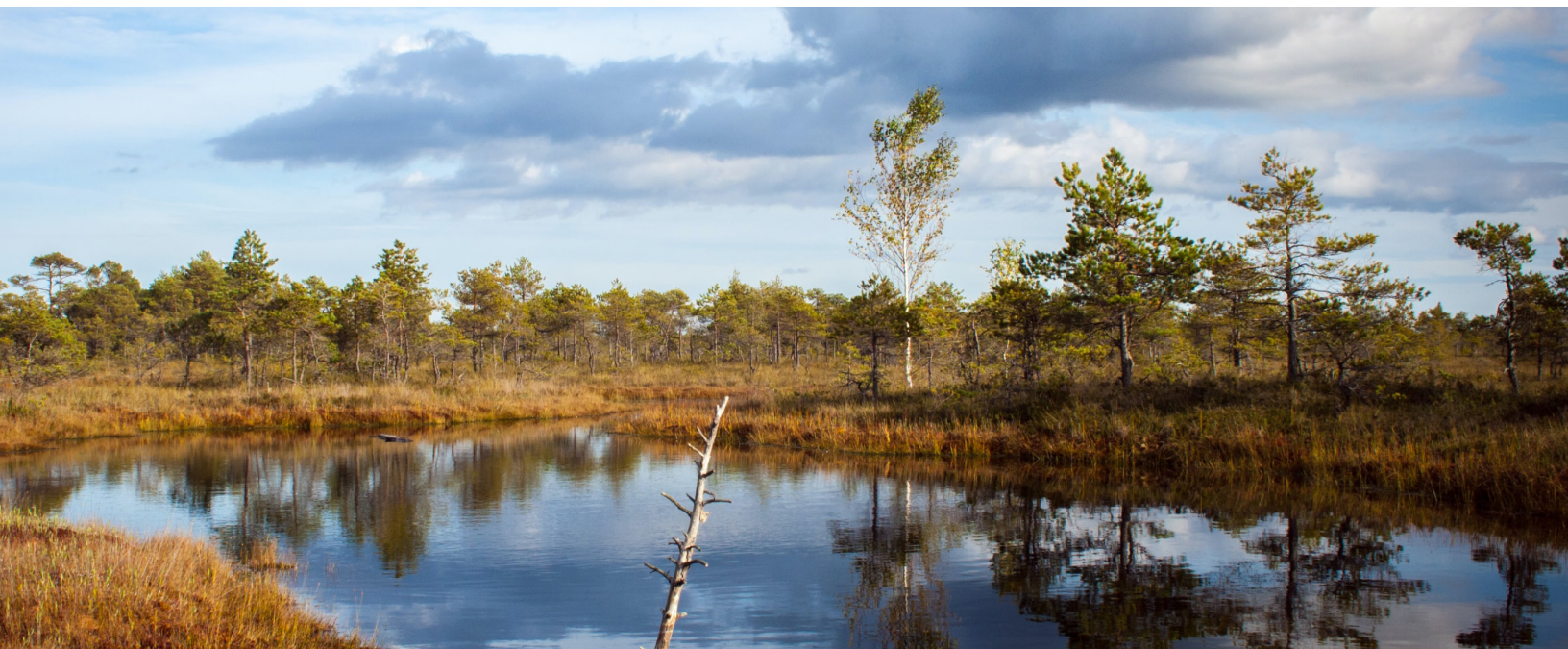
# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Department of Agriculture

Audit Report for the Biennium Ended June 30, 2019

Client Code 602





## WHAT WE LOOKED AT

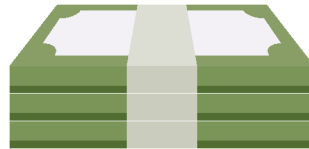
Our team audited the Department of Agriculture which included reviewing financial transactions, expenditures and blanket bond coverage.

## WHY WE LOOKED AT THIS

State law (N.D.C.C. 54-10-01) requires our team to perform a post-audit of all financial transactions of the state government, detecting and reporting any defaults, and determining that expenditures have been made in accordance with law and appropriation acts.

## WHAT WE FOUND

### OVER SPENDING MONEY FROM GENERAL FUND



Our team found that the Department of Agriculture overspent money allocated from the general fund. The amount overspent totaled \$25,529.

*Read more on page 4*

# TABLE OF CONTENTS

<b>INTRODUCTION</b> .....	2
Terms Used in Report .....	3
<b>AUDIT RESULTS</b>	
Statutory Objective .....	4
<b><i>Exceeded General Fund Appropriation Limits</i></b> .....	<b>4</b>
Conclusion and Background .....	4
<b>AUDIT PROCEDURES</b>	
Internal Control .....	6
Scope and Methodology .....	6
Statutory Criteria .....	7
Authority and Standards .....	7
<b>LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE</b>	
Responses to LAFRC Audit Questions .....	8
LAFRC Audit Communications .....	9
<b>FINANCIAL STATEMENTS</b>	
Financial Statements .....	10
Statement of Appropriations .....	11

## KEY PERSONNEL

Allison Bader  
MBA, AUDIT MANAGER

Kristi Morlock  
MBA, AUDIT SUPERVISOR

Nathan Wangler  
CPA, LEAD AUDITOR

Holly Runia  
AUDITOR

Brittani Reim  
AUDITOR

## HAVE QUESTIONS? ASK US.

**NORTH DAKOTA STATE  
AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117  
Bismarck, North Dakota 58505

-  701-328-2241
-  NDSAO@nd.gov
-  ND.gov/Auditor
-  Facebook.com/NDStateAuditor
-  LinkedIn.com/company/NDStateAuditor

# Introduction

## Department of Agriculture

May 4, 2020

---

We are pleased to submit this audit of the Department of Agriculture for the biennium ended June 30, 2019. 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. Whenever possible, additional audit objectives are included to increase responsiveness 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) 328-1073. We wish to express our appreciation to Mr. Goehring and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

**JOSHUA C. GALLION**  
**NORTH DAKOTA STATE AUDITOR**

## TERMS USED IN REPORT

**Appropriation:** An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

**Blanket Bond Coverage:** Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

**ConnectND:** The accounting system for North Dakota.

**Conflict of Interest:** Situation in which a person is in a position to derive personal benefit from actions or decisions made in their official capacity.

**Default:** Failures to do something required by duty or law.

**Emergency Commission:** Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

**General fund:** The predominant fund for financing a state's operations.

**Internal Control:** Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

**Noncompliance:** Failure to act in accordance with a wish or command.

**North Dakota Administrative Code (N.D.A.C.):** Codification of all rules of state administrative agencies.

**North Dakota Century Code (N.D.C.C.):** Collection of all the statutes passed by the North Dakota Legislative Assembly.

**Outdoor Heritage Fund:** Established in 2013 by the North Dakota legislature under the North Dakota Industrial Commission. Provides grants to promote conservation in the state.

**Performance Audit:** Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

**Session Laws:** Published after each regular and special legislative session and contain the laws enacted during that session.

# Audit Results

## OBJECTIVE

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.

FINDING  
2019-01

## Exceeded General Fund Appropriation Limits

### CONCLUSION

The Department of Agriculture appeared to have overspent their appropriation from the general fund by \$25,529.

### BACKGROUND

The Department of Agriculture submitted an application to the Industrial Commission for funding from the Outdoor Heritage Fund to begin the Waterbank Program. The waterbank program is a cooperative effort that provides landowners with financial incentives to restore, conserve or enhance wetlands and their associated uplands. This program will allow landowners to manage excess water on

their lands and provide compensation for flooded crop acres.

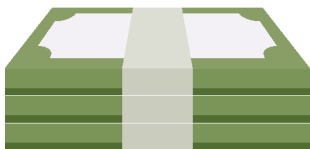
The approved application for the Waterbank Program stated that a minimum of 25% match funding was strongly encouraged. The Department of Agriculture wanted to use general funds for the match funding. For the 2017-2019 biennium, the Department of Agriculture received approval to use \$50,000 of general funds as matching funds from the legislative assembly. 2017 Session states that \$50,000 of salaries and wages from the general fund can be used for matching funds for the Outdoor Heritage Fund grant, which provides for the Waterbank Program.

## 2017 Session Laws Ch 8, HB1009, Section 8

### SECTION 8. WATERBANK PROGRAM - MATCHING FUNDS.

The salaries and wages line item in section 1 of this Act includes \$50,000 from the general fund for matching funds for the North Dakota outdoor heritage fund grant provided for the waterbank program.

The Department of Agriculture spent \$15,413 of the \$50,000 on the Waterbank Program appropriated for the 2017-2019 biennium. Based on how the law is written, it appears the remaining \$34,587 should have been turned back to the general fund at the end of the biennium. The law states the money cannot be spent on anything other than matching salaries for the Waterbank Program. However, at the end of the biennium, there was only \$9,058 left when there should have been \$34,587. It appears that the Department of Agriculture exceeded their appropriation by \$25,529. This leads to potential noncompliance with state law.



While **\$50,000** was available to the Department of Agriculture from the general fund, that money should only have been used on a **salaries match** for the Waterbank Program.

The North Dakota Department of Agriculture interpreted the session law as having the ability to use the funds as match up to \$50,000 over the entire life of the Waterbank Program which runs from July 1, 2015, to December 31, 2024. The Department tracks the amount of general funds spent on the Waterbank program each biennium to properly not exceed the \$50,000 over the life of the program. However, the Department did not believe that all \$50,000 in the 2017 Session Law was allocated only for the Waterbank Program. They believed that any of the remaining money not spent on the Waterbank Program salaries could be used on other general staff salaries each biennium. The law does not appear to be written to allow this.

#### **RECOMMENDATION**

We recommend the Department of Agriculture ensures compliance with appropriation limits set by the North Dakota Legislature.

#### **NORTH DAKOTA DEPARTMENT OF AGRICULTURE RESPONSE**

NDDA does not agree with the audit finding. NDDA received funding from the Outdoor Heritage Fund in 2015 and worked with the Legislature to add language in our appropriation bill to be in compliance with NDCC 54-17.8-05(2) regarding the use of general funds as match. The intention in the grant application and our budget bill was to have the authority to match “up to” and not encumber \$50,000 of funds. We only requested authority to apply time for match that was directly spent working on this grant. Also, NDDA did not receive any additional general funds to cover this match.

#### **STATE AUDITOR'S CONCLUDING COMMENTS**

We agree that Section 8 of H.B. 1009 of the 2017 Session Laws was necessary to authorize the Department to use general funds as matching funds in accordance with NDCC 54-17.8-05(2). The Department received similar authorization in the 2015 Session Laws. However, the language of the Session Laws identifies the amount of general funds and restricts these general funds for specific use on the Waterbank Program.



# Audit Procedures

## INTERNAL CONTROL

As we determined internal control was significant to this audit objective, we assessed internal control by gaining an understanding of internal control and concluded as to the adequacy of the design of internal control and whether the applicable internal controls were implemented. We also tested the operating effectiveness of those controls we considered necessary to address our audit objective. The controls assessed were generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. We identified key controls significant to this audit objective related to the control activities component of internal control, specifically the principle related to the design of control activities.

## SCOPE

This audit of the Department of Agriculture is for the biennium ended June 30, 2019.

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

## METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Inspected documentary evidence.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- 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 compliance with appropriation laws and regulations including related transfers and emergency commission action.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
- Where necessary, internal controls were tested which included selecting representative samples to determine if controls were operating effectively. Internal control work included testing ConnectND budget limits, segregated and appropriate payment approvals, and reconciliations of revenue remittances (paper and online through the Kelly Registration System) to ConnectND.
- Random non-statistical sampling, which allowed results to be projected to populations, was taken of revenue and expenditures to ensure compliance with accounting standards and state laws.
- Tested compliance with procurement guidelines established by the Office of Management and Budget.



## STATUTORY CRITERIA

Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

The criteria used to evaluate legislative intent are the laws as published in the North Dakota Century Code and the North Dakota Session Laws. The following areas were identified to be of higher risk of noncompliance:

- Compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. 2017 North Dakota Session Laws Chapter 8 (H.B. 1009, Sections 7, 8, 10), 2017 North Dakota Session Laws Chapter 65 (S.B. 2029, Section 1) and 2019 Session Laws Chapter 61 (H.B. 1349, Section 1)
- Compliance with Emergency Commission appropriations (N.D.C.C. 54-16-03)
- Blanket bond coverage maintained in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10)
- Proper use of funds (State Constitution article 10 section 12, N.D.C.C. 44-08-05.1, N.D.C.C. 54-44.1-10, N.D.C.C. 4.1-12-08, N.D.C.C. 4.1-08-05, N.D.C.C. 61-31-10, N.D.C.C. 4.1-39-08, N.D.C.C. 4.1-39-07, N.D.C.C. 4.1-01-19)
- Goods, services, and public improvements procured in accordance with state law. (N.D.C.C. Chapter 54-44.4, N.D.C.C. Chapter 48-01.2, N.D.A.C. Article 4-12)
- Fees deposited in the appropriate fund:
  - Industrial Hemp – NDCC 4.1-18-02, NDCC 4.1-18.1-03
  - Commercial Feed fees – NDCC 4.1-41-19
  - Pesticide fees – NDCC 4.1-34-03(5)
  - Fertilizer fees – NDCC 4.1-40-02(6), NDCC 4.1-40-03(8), NDCC 4.1-40-07(5)

## AUTHORITY AND STANDARDS

This biennial audit of the Department of Agriculture has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are 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).



# 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?**

Other than the findings in this report, the Department of Agriculture was in compliance with significant statutes, laws, rules and regulations under which it was created and is functioning.

## **3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?**

We determined internal control was adequate and we did not identify deficiencies in internal control that were significant within the context of our audit objectives.

## **4. WERE THERE ANY INDICATIONS OF LACK OF EFFICIENCY IN FINANCIAL OPERATIONS AND MANAGEMENT OF THE AGENCY?**

No. There were no indications of lack of efficiency in financial operations and management of the agency significant within the contest of our audit objectives.

## **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.**

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 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 and Kelly Registration System are high-risk information technology systems critical to the Department of Agriculture.

None of the exceptions identified in the audit report are directly related to these systems.

# Financial Statements

## Statement of Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2019	JUNE 30, 2018
Revenue from Federal Government	\$ 3,605,227	\$ 4,219,927
Licenses, Fees and Registrations	1,852,543	6,925,872
Conference Registration Fees	236,202	411,624
Fines	32,750	23,141
Donations and Contributions	11,000	51,000
Turkey Assessments	10,774	14,206
Other Revenues	7,450	7,238
Transfers In	858,109	3,402,183
<b>Total Revenue and Other Sources</b>	<b>\$ 6,614,055</b>	<b>\$ 15,055,191</b>

EXPENDITURES AND OTHER USES	JUNE 30, 2019	JUNE 30, 2018
Salaries and Benefits	\$ 5,868,971	\$ 5,660,921
Grants, Benefits & Claims	3,797,916	4,767,925
Operating Fees and Services	1,720,627	1,463,138
Travel	500,657	506,055
Professional Fees and Services	463,406	187,995
IT-Data Processing/Communication/Services	289,945	286,027
Rental/Leases	204,670	202,345
Supplies	152,660	92,633
Professional Development	89,582	103,912
Other Expenditures	82,219	69,917
Equipment	60,920	10,564
Transfers Out	20,350	339,500
<b>Total Expenditures and Other Uses</b>	<b>\$ 13,251,923</b>	<b>\$ 13,690,932</b>

Source: ConnectND Financials

# Statement of Appropriations

For the Biennium Ended June 30, 2019

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 12,372,949	\$ 11,516,151	\$ 856,798
Operating Expenses	7,444,336	4,195,321	3,249,015
Capital Assets	13,000	9,028	3,972
Grants	10,437,774	8,118,748	2,319,026
Board Of Animal Health	869,618	289,732	579,886
Wildlife Services	1,408,000	1,408,000	-
Pipeline Oversight Program	200,000	71,327	128,673
Crop Harmonization Board	75,000	63,967	11,033
<b>Totals</b>	<b>\$ 32,820,677</b>	<b>\$ 25,672,274</b>	<b>\$ 7,148,403</b>

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
General	\$ 9,113,001	\$ 9,103,944	\$ 9,057
Other	23,707,676	16,568,330	7,139,346
<b>Totals</b>	<b>\$ 32,820,677</b>	<b>\$ 25,672,274</b>	<b>\$ 7,148,403</b>

Source: ConnectND Financials



NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505

 [ND.gov/Auditor](https://nd.gov/Auditor)

 [NDSAO@nd.gov](mailto:NDSAO@nd.gov)

 701-328-2241

 [Facebook.com/NDStateAuditor](https://Facebook.com/NDStateAuditor)

 [Linkedin.com/company/NDStateAuditor](https://Linkedin.com/company/NDStateAuditor)