



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

*State Auditor Joshua C. Gallion*

## Industrial Commission

Audit Report for the Two-Year Period Ended June 30, 2020

*Client Code 405*





### WHAT WE LOOKED AT AND WHY

North Dakota state law requires our team to identify any errors, internal control weaknesses, or potential violation of law in significant or high-risk functions of the agency.

### WHAT WE FOUND

This audit did not identify any areas of concern.

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# KEY PERSONNEL

Allison Bader  
MBA, AUDIT MANAGER

Richard Fuher  
CPA, MBA, SENIOR AUDITOR

Ian Ballantyne  
CPA, AUDITOR

Creighton Barrett  
AUDITOR

Taylor Hendrickson  
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

## Industrial Commission

June 16, 2021

We are pleased to submit this audit of the Industrial Commission for the two-year period ended June 30, 2020. 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 the 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) 328-2241. We wish to express our appreciation to the Industrial Commission 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.

**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.

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

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

**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.

**Office of Management and Budget (OMB):** Establishes fiscal and administrative policies for state entities.

# Audit Results

## OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency?

## CONCLUSION

No areas of concern were identified.

## INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation and electronic data records. As required by auditing standards, we planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Specifically, our work related to internal control included the following components and underlying principles based on guidance issued by the U.S. Government Accountability Office.

### COMPONENT: CONTROL ENVIRONMENT

**Principal:** Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

**Principal:** Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

### COMPONENT: CONTROL ENVIRONMENT

**Principal:** Management should design control activities to achieve objectives and respond to risks.

**Principal:** Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

### COMPONENT: INFORMATION AND COMMUNICATION

**Principal:** Management should use quality information to achieve the entity's objectives.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures were tested statewide in the audit of the State of North Dakota Annual Comprehensive Financial Report.
- Tested original appropriations and appropriation adjustment authorizations in the audit of the State of North Dakota Annual Comprehensive Financial Report.
- Confirmed no changes were made to the ConnectND system edit checks that are in place to limit budget overspending.
- Checked that the spreadsheet used by the Industrial Commission to calculate transfer amounts from entities are correct. Also reviewed the calculation to check that the authorized limit is not exceeding the allowed amount. (2017 Session Laws Senate Bill 2014 section 8, 2019 Session Laws House Bill 1014 section 8).
- Tested the accuracy of the Industrial Commission's administrative services budget tracking spreadsheet by comparing revenues and expenditures to ConnectND Financial data.
- Ensured employees had proper procurement officer certification training for the types of procurements conducted and tasks performed.
- Tested legislatively restricted fund expenditures for proper approvals by appropriate individuals.

There were no deficiencies identified.

## SCOPE

This audit of the Industrial Commission is for the two-year period ended June 30, 2020.

This audit of the Industrial Commission is limited to the following entities and programs under the direction and control of the Commission:

- Department of Mineral Resources (Geological Survey and Oil and Gas Division).
- Lignite Research, Development, and Marketing Program.
- Oil and Gas Research Program.
- Outdoor Heritage Fund.
- Pipeline Authority.
- Renewable Energy Program.
- Transmission Authority.

The Industrial Commission has operations in the following locations. Each location was included in the audit scope:

- Administrative office in the State Capitol.
- Department of Mineral Resources office, Bismarck.
- Geological Survey Core and Sample Library, Grand Forks.
- District offices in Dickinson, Minot, and Williston.

## METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Observed the Industrial Commission's processes and procedures.
- Inspected documentary evidence.
- Queried the ConnectND (PeopleSoft) system for data analysis. Performed detailed analytical procedures. These procedures were used to identify high-risk transactions and potential problems for additional testing.
- Analyzed and tested expenditures to determine the Industrial Commission did not expend more than

appropriated. (N.D.C.C. 54-16-03).

- o 2017 Session Laws Senate Bill 2014 section 1, subdivision 1.
- o 2019 Session Laws House Bill 1014 section 1, subdivision 1.
- Tested compliance with the documented intent of appropriation adjustments, including specific Session Laws with related emergency measure sections. (N.D.C.C. 54-16-03).
  - o Analyzed expenditures to determine the \$2,358,678 unexpended general funds from the 2015-17 biennium were used for lignite research grants. (2017 Session Laws Senate Bill 2014 section 25).
  - o Analyzed expenditures to determine increased general fund spending authority was used for litigation expenses (2019 Session Laws Senate Bill 2024 section 1).
  - o Analyzed expenditures to determine the \$410,320.57 unexpended strategic investment and improvements funds from the 2017-19 biennium were used for expert testimony associated with the corps survey review. As of June 30, 2020, the entire amount remained unspent. (2019 Session Laws House Bill 1014 section 27).
- Analyzed accounts charged to each appropriation class to determine that expenditures were not charged to an inappropriate class to circumvent appropriation spending authority. (N.D.C.C. 54-16-03).
- Reviewed non-appropriated fund activity to ensure the Industrial Commission had legislative approval for non-appropriated expenditures. (N.D.C.C. 54-44.1-09).
- Tested compliance with the documented intent of special appropriation laws, including one-time funding items.
  - o Determined the total number of wells capable of production and injection exceeded 18,200. Determined the Budget Section approved the Industrial Commission's request to spend the \$221,737 contingency funding to hire two full-time equivalent positions. Determined no more than two positions were hired. Determined the Industrial Commission did not overspend the approved budget of \$221,737.



- (2017 Session Laws Senate Bill 2014 section 7).
- o Analyzed revenue to ensure no more than the authorized amounts were received from the entities within the control of the Industrial Commission or entities directed to make payments to the Industrial Commission Fund for administrative services rendered. (2017 Session Laws Senate Bill 2014 section 8, 2019 Session Laws House Bill 1014 section 8).
  - o Analyzed transfers and expenditures to determine \$1,000,000 was transferred from the strategic investment and improvements fund and used for litigation expenses. (2017 Session Laws Senate Bill 2014 section 16).
  - o Analyzed expenditures and reviewed the Lignite Research, Development, and Marketing Program information to ensure no more than \$4.5 million from the lignite research fund was used for nonmatching lignite studies and litigation. During the biennium, approximately \$800,000 was used for nonmatching lignite studies and litigation. (2017 Session Laws Senate Bill 2014 section 27).
  - o Analyzed expenditures and reviewed other support to ensure no more than \$5,000,000 from the abandoned oil and gas well plugging and site reclamation fund was used to conduct brine pond and soil remediation studies. (2017 Session Laws House Bill 1347 section 2).
  - o Analyzed expenditures and reviewed grant information to determine \$500,000 from the oil and gas research fund was used to contract with the Energy and Development Research Center to continue the study regarding pipeline leak detection technology; and that the study included an analysis of leak detection and monitoring technology and a risk assessment of new and existing pipeline systems. (2017 Session Laws House Bill 1347 section 3).
  - o Analyzed salaries and benefits for temporary employees to ensure up to \$175,000 in general funds was used for temporary employees. (2019 Session Laws House Bill 1014 section 2).
  - o Analyzed transfers to determine \$20,000 was transferred from the general fund to the high-level radioactive waste fund. (2019 Session Laws House Bill 1014 section 5).
  - o Ensured the \$229,544 appropriation remained unspent since the Industrial Commission indicated the total number of wells capable of production and injection was less than 20,800. (2019 Session Laws House Bill 1014 section 7).
  - o Analyzed transfers and expenditures to determine \$270,000 was transferred from the strategic investment and improvements fund and used for a rare earth element study (\$160,000) and a fracturing sand study (\$110,000). As of June 30, 2020, approximately \$180,000 had been spent on these studies. (2019 Session Laws House Bill 1014 section 2, 2019 Session Laws House Bill 1014 section 17).
  - o Analyzed expenditures to ensure no more than \$5 million from the abandoned oil and gas well plugging and site reclamation fund was used for a risk-based data management system information technology project. As of June 30, 2020, approximately \$2.8M had been spent on this project. (2019 Session Laws House Bill 1014 section 2, 2019 Session Laws House Bill 1014 section 18).
  - o Inspected the contract and analyzed expenditures to ensure no more than \$300,000 from the oil and gas research fund was used to contract for a study of recycling of water used in oil and gas operations. As of June 30, 2020, approximately \$33,730 had been spent towards the contract that is not to exceed \$300,000. (2019 Session Laws House Bill 1014 section 19).
  - o Inspected the contract and analyzed expenditures to ensure no more than \$6 million from the oil and gas research fund was used to contract with the Energy and Environment Research Center for pilot projects relating to the underground storage of produced natural gas. As of June 30, 2020, approximately \$2.2 million had been spent towards the \$6M contract. (2019 Session Laws House Bill 1014 section 25(2)).
  - o Analyzed lignite research fund expenditures and determined the Industrial Commission used \$2,867 of the \$4.5 million appropriated from the lignite research fund to pay fees associated with lignite litigation during fiscal year 2020. (2019 Session Laws House



Bill 1014 section 28, 2019 Session Laws House Bill 1014 section 30).

- o Reviewed Industrial Commission complaints and other support to ensure civil and criminal penalties were deposited in the abandoned oil and gas well plugging and site reclamation fund. (N.D.C.C. 38-08-16(1)).
- Selected a random sample of expenditures to test payments were for lawful and official purposes. (N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-10).
- Selected a random sample of expenditures to ensure goods and services were properly procured. (N.D.C.C. 54.44.4, N.D.A.C. Title 4-12, and OMB State Procurement Manual guidelines).
- Selected a random sample of expenditures to determine that charges to significant legislatively restricted funds were in accordance with fund restrictions.
  - o Renewable Energy Development Fund (N.D.C.C. 54-63-04).
  - o Oil and Gas Research Fund (N.D.C.C. 57-51.1-07.3).
  - o Outdoor Heritage Fund (N.D.C.C. 57-17.8-02).
  - o Lignite Research Fund (N.D.C.C. 57-61-01.6).
  - o Abandoned Oil and Gas Well Plugging and Site Reclamation Fund (N.D.C.C. 38-08-04.5).
  - o Energy Research Center Fund (N.D.C.C. 57-51.1-07.9).
- Evaluated the adequacy of blanket bond coverage by comparing coverage to state bonding guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10(1)).

## **AUTHORITY AND STANDARDS**

This biennial audit of the Industrial Commission 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). Agency management must establish and maintain effective internal control in accordance with the policies of the Office of Management and Budget (OMB Policy 216).



# Responses to LAFRC Audit Questions

## **1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?**

Revenues, expenditures and appropriation information was not prepared by the Industrial Commission 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. We did not identify any 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.

## **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 Industrial Commission's revenues, expenditures and appropriation information does 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 Human Capital Management (HCM) are high-risk information technology systems that were significant to the audit objective.

# Finances

## Revenues and Expenses

REVENUES AND OTHER SOURCES		JUNE 30, 2020	JUNE 30, 2019
Fines and Commissions		\$ 2,857,587	\$ 829,786
Charges for Sales and Services		285,746	318,729
Interest and Investment Earnings		199,470	126,702
Federal Revenue		155,092	104,000
Refunds		124,089	121,320
Miscellaneous Revenue		121,325	255,288
Permits and Fees		107,802	397,079
Transfers-In		92,822,620	11,628,281
<b>Total Revenue and Other Sources</b>		<b>\$ 96,673,731</b>	<b>\$ 13,781,185</b>

Source: ConnectND Financials

\*The revenues above do not include activity of the Building Authority as they were not included in the scope of the audit.

Continued on following page

# Finances

## Revenues and Expenses

EXPENSES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Grants	\$ 17,874,152	\$ 11,337,316
Salaries and Benefits	10,806,562	10,503,091
IT Equipment and Software	3,028,061	233,038
Contract Services	1,525,673	1,421,475
Professional Fees and Services	1,330,400	1,085,525
Rental/Leases - Buildings	969,846	352,390
Travel	587,260	794,933
Operating Fees and Services	398,096	388,311
IT Communications and Data Processing	260,372	358,280
Professional Development	74,524	62,315
Transfers-Out	1,076,539	77,594
<b>Total Expenditures and Other Uses</b>	<b>\$ 37,931,485</b>	<b>\$ 26,614,268</b>

Source: ConnectND Financials

\*The expenses above do not include activity of the Building Authority as they were not included in the scope of the audit.

# 2019-2021 Appropriations

For the Year Ended June 30, 2020

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATION
<b>Expenses by Line Item</b>			
Salaries and Wages	\$ 23,584,450	\$ 10,802,338	\$ 12,782,112
Operating Expenses	7,073,990	2,977,892	4,096,098
Capital Assets	5,000,000	2,811,080	2,188,920
Contingencies	229,544	-	229,544
Bond Payments	10,508,767	5,254,572	5,254,195
CARES Act Funding - 2020	66,350,000	432	66,349,568
High - Level Radioactive TSFR	20,000	20,000	-
<b>Totals</b>	<b>\$ 112,766,751</b>	<b>\$ 21,866,314</b>	<b>\$ 90,900,437</b>
<b>Expenditures by Source</b>			
General	\$ 27,449,198	\$ 12,307,787	\$ 15,141,411
Other	85,317,553	9,558,527	75,759,026
<b>Totals</b>	<b>\$ 112,766,751</b>	<b>\$ 21,866,314</b>	<b>\$ 90,900,437</b>

Source: ConnectND Financials

\*The Industrial Commission appropriations include Building Authority. The above appropriations statement reflects expenditures from the Building Authority which was not included in the scope of the audit.

\*The Industrial Commission appropriations include Public Finance Authority. Expenditures for Public Finance Authority were obtained from the Statement of Appropriations in the Authority's audited financial statements for the six months between July 1, 2019 and December 31, 2019. Public Finance Authority was not included in the scope of the audit.



# 2017-2019 Appropriations

For the Biennium Ended June 30, 2019

	FINAL APPROPRIATION	EXPENSES	UNEXPENDED APPROPRIATION
<b>Expenses by Line Item</b>			
Salaries and Wages	\$ 22,160,093	\$ 21,359,970	\$ 800,123
Operating Expenses	12,330,355	10,009,145	2,321,210
Grants - Bond Payments	15,569,162	15,415,013	154,149
Litigation Costs	269,408	162,384	107,024
<b>Totals</b>	<b>\$ 50,329,018</b>	<b>\$ 46,946,512</b>	<b>\$ 3,382,506</b>
<b>Expenditures by Source</b>			
General	\$ 28,037,073	\$ 26,618,928	\$ 1,418,145
Other	22,291,945	20,327,584	1,964,361
<b>Totals</b>	<b>\$ 50,329,018</b>	<b>\$ 46,946,512</b>	<b>\$ 3,382,506</b>

Source: ConnectND Financials

\*The Industrial Commission appropriations include Building Authority. The above appropriations statement reflects expenditures from the Building Authority which was not included in the scope of the audit.

\* Industrial Commission appropriation include Public Finance Authority. Expenditures for Public Finance Authority were obtained from the Statement of Appropriations in the Authority's audited financial statements for the two years ended June 30, 2019. Public Finance Authority was not included in the scope of the audit.



Office of the  
State Auditor


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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

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