



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Department of Agriculture

Audit Report for the Biennium Ended June 30, 2021

Client Code 602





## WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenses are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified 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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## 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](mailto:NDSAO@nd.gov)
- [ND.gov/Auditor](http://ND.gov/Auditor)
- Facebook - [ndsao.link/eps](https://www.facebook.com/ndsao.link/eps)
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# Introduction

## Department of Agriculture

June 6, 2022

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We are pleased to submit this audit of the Department of Agriculture for the biennium ended June 30, 2021. 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) 328-2241. We wish to express our appreciation to the Department of Agriculture 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.



# Audit Results

## PRIMARY 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.



# Audit Procedures

## Primary Objective

### INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and effectiveness of those internal controls that were significant to our audit objective.

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

- Segregated preparation and approval of expenditures tested in the audit of the State of North Dakota Annual Comprehensive Financial Report.
- Credit Sale Contract Indemnity Fund payments were made pursuant to a signed judgment or court order.
- Grain and Feed, Fertilizer, and Pesticide applications were approved by appropriate personnel from the respective divisions.
- Kelly Registration System was reconciled to ConnectND at least monthly for Grain and Feed, Fertilizer, and Pesticide revenue collections.
- Procurement was performed by individuals with the proper level of training.
- Receipts were present to support individual purchase card statement charges.
- Receipts were being reconciled to the individual purchase card statements.
- Purchase card expenditures were approved by an appropriate individual.

There were no significant deficiencies identified.

### SCOPE

The Department of Agriculture has its central office in the Capitol, which was included in the audit scope.

### METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population where appropriate.
- Interviewed appropriate agency personnel.
- Observed the Department of Agriculture's processes and procedures.
- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Reviewed 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)).
- Queried ConnectND data and 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 the Information Technology Department's work order cost summary and determined \$37,062 of the \$110,000 one-time funding was used for a master customer database (2019 Session Law SB 2009 Section 2).
- Inspected ConnectND data to determine that the Department of Agriculture complied with the legislative intent by transferring \$325,000 from the Environmental and Rangeland Protection Fund to the Minor Use Pesticide Fund during the 2019-21 biennium (2019 Session Law SB 2009 Section 3).
- Inspected amount of expenditures from the Environment and Rangeland Protection Fund did not exceed \$6,725,799 for the purpose of defraying expenses of the various department of agriculture programs for the 2019-21 biennium (2019 Session Law SB 2009 Section 4).



- Reviewed ConnectND expenditure data and Wildlife Services and Board of Animal Health cooperative agreements to determine the \$614,430 from the Game and Fish Department was used to defray the expenses of various Department of Agriculture programs (2019 Session Law SB 2009 Section 5).
- Reviewed ConnectND expenditure data and Wildlife Services cooperative agreement to determine the \$125,000 from the State Water Commission was used for the Wildlife Services program (2019 Session Law SB 2009 Section 6).
- Reviewed ConnectND payroll data to ensure no more than \$50,000 in General Funds was used for matching funds for the North Dakota Outdoor Heritage Fund Grant provided for the Waterbank program (2019 Session Law SB 2009 Section 7).
- Analyzed and tested judgmental sample of expenditures determining that the Department of Agriculture complied with legislative intent and used \$81,771 from the Abandoned Oil and Gas Well Plugging and Site Reclamation Fund for the purpose of the pipeline restoration and reclamation program. The remaining \$118,229 appropriation was unexpended at the end of the biennium (2019 Session Law SB 2009 Section 8).
- Inspected ConnectND transactions and determined BND transferred \$2M to the Agriculture Commissioner for deposit in the Agricultural Products Utilization Commission Fund during the FY2019-21 biennium (2019 Session Law SB 2009 Section 9).
- Analyzed ConnectND data and determined funds were used to pay the Public Service Commission to continue providing services related to grain insolvency litigation (2019 Session Law SB 2009 Section 11).
- Analyzed ConnectND and determined that there was no activity for the FY2019-21 biennium in the Environmental Impact Mitigation Fund. \$5 million remained unspent at the end of the biennium (2019 Session Law HB 1383 Section 7).
- Analyzed ConnectND data and inspected payments determining that OMB transferred \$700,000 to the Bioscience Innovation Grant Fund, of which, \$200,000 was awarded to the Bioscience Association of North Dakota to provide assistance to develop bioscience companies (2019 Session Law SB 2224 Section 8).
- Analyzed ConnectND expenditures not charged to appropriations for proper legislative approval.
- Analyzed adjustments by class and identified authorizing legislation or Emergency Commission approval. Identified the purpose of the adjustments. Lastly, analyzed and tested expenditures determining the agency used the appropriation for the legislatively approved purpose.
- Queried ConnectND data and pulled a random sample of expenditures to test. Determined that cost distribution in ConnectND was consistent with the nature of the expenditure and that the proper account, fund, and class were used. Further, compared the original invoice as to vendor and amount to payment and determined that the expenditures were reasonable (N.D.C.C. 54-16-03, 2019 Session Law SB 2009 Section 1).
- Analyzed and tested random sample of expenditures to determine if the appropriate divisions were expending from the Environment and Rangeland Protection Fund. Determined that the original invoice matched the amount paid and that the expenditures were reasonable. Further, determined that the cost distribution was consistent with the nature of the expenditure and that the proper account, fund, and class were used in ConnectND (N.D.C.C. 4.1-39-07).
- Analyzed and tested expenditures of the Credit Sale Contract Indemnity Fund and determined that the payments were made pursuant to a signed judgment/court order. Determined payments were in accordance with fund restrictions, amounts paid agreed to original invoices and payments were properly coded within ConnectND (N.D.C.C. 60-10-02).
- Analyzed and tested judgmental sample of expenditures from the Bioscience Innovation Fund. Determined that the Department of Agriculture spent \$699,849 for the grant program. Determined the expenditures to be within the fund restrictions, complied with matching requirements and that the projects met N.D.C.C. requirements. Determined amounts paid agreed to original invoices and payments were properly coded



- within ConnectND (N.D.C.C. 4.1-01-20.1).
- Inspected training for individuals performing procurement to ensure individuals had the proper level of training. Further, Analyzed and selected high-risk sample of expenditures determining procurement was in accordance with N.D.C.C. 54-44.4, NDAC title 4-12, or OMB Policies and Guidelines.
  - Queried ConnectND data performed selected randomly and high-risk sample of purchase card expenditures. Determined receipts supported individual purchases on card statement charges. Reviewed the expenditures to determine that they were reasonable related to the function of the agency and properly coded in ConnectND. Further determined that the receipts were reconciled to the individual purchase card statements and that the purchase card expenditures and related receipts were approved by an appropriate individual (N.D.C.C. 54-16-03 and OMB Pcard Policy).
  - Reviewed the Wildlife Services Work/Financial Plan #19-258 and Cooperative Agreement #19-259. Analyzed payments in ConnectND to determine USDA Wildlife Services was reimbursed no more than \$1,455,400 for services of general wildlife and blackbird conflict management (max. \$727,700 per FY) in accordance with Wildlife Services Work/Financial Plan #19-258.
  - Tested judgmental sample of monthly reconciliations between the Kelly Registration System and ConnectND for grain and feed collections. Reviewed the Kelly Registration System to ensure applications were properly approved by division staff. Compared amounts collected to applicable N.D.C.C. requirements. Analyzed ConnectND data to determine amounts collected were deposited into the proper fund and that the first \$727,500 of fees received were deposited in the Environment and Rangeland Protection Fund (N.D.C.C. 4.1-41-19, N.D.C.C. 4.1-41-02 and N.D.C.C. 4.1-41-08).
  - Tested judgmental sample of monthly reconciliations between the Kelly Registration System and ConnectND for fertilizer collections. Reviewed the Kelly Registration System to ensure applications were properly approved by division staff. Compared amounts collected to applicable N.D.C.C. requirements. Analyzed ConnectND data to determine amounts collected were deposited into the proper fund (N.D.C.C. 4.1-40-02, N.D.C.C. 4.1-40-03, N.D.C.C. 4.1-40-07).
  - Tested judgmental sample of monthly reconciliations between the Kelly Registration System and ConnectND for pesticide collections. Reviewed the Kelly Registration System to ensure applications were properly approved by division staff. Compared amounts collected to applicable N.D.C.C. requirements. Analyzed ConnectND data to determine amounts collected were deposited into the proper fund (N.D.C.C. 4.1-34-03).
  - Reviewed the License Application and Renewal System to ensure public warehouse, grain buyer, and roving grain buyer license fees were properly approved by division staff. Compared amounts collected to applicable N.D.C.C. requirements. Analyzed ConnectND data to determine amounts collected were deposited into the proper fund (N.D.C.C. 60-02.1-07.1, N.D.C.C. 54-06-07).

#### **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?**

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

## **2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?**

Yes.

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

Yes. 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?**

Yes.

## **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 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, Human Capital Management (HCM), Kelly Registration System, and License Application and Renewal System are high-risk information technology systems critical to the Department of Agriculture.

# Financials

## Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Revenue from Federal Government	\$ 4,316,659	\$ 4,419,597
Licenses, Fees and Registrations	2,403,982	7,519,848
Conference Registration Fees	48,541	190,343
Interest on Investment	24,281	60,228
Fines	14,775	36,125
Other Revenues	12,913	19,105
Donations and Contributions	1,000	31,000
Turkey Assessments	11,949	16,677
Transfers In	15,035,279	9,019,241
<b>Total Revenue and Other Sources</b>	<b>\$ 21,869,379</b>	<b>\$ 21,312,164</b>

Source: ConnectND Finance

Continued on following page

# Financials

## Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Grants, Benefits and Claims	\$ 19,508,229	\$ 5,306,885
Salaries and Benefits	6,801,381	6,541,488
Operating Fees and Services	1,725,494	1,870,268
IT - Data Processing, Communication, Services	569,825	349,128
Travel	383,275	456,692
Professional Fees and Services	195,334	262,682
Rentals/Leases	144,750	196,001
Other Expenses	163,279	65,111
Professional Development	79,342	115,867
Supplies	43,867	91,619
Transfers Out	11,324	419,909
<b>Total Expenditures and Other Uses</b>	<b>\$ 29,626,100</b>	<b>\$ 15,675,650</b>

Source: ConnectND Finance

# Appropriations

For the Biennium Ended June 30, 2021

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Salaries and Wages	\$ 14,232,746	\$ 13,328,707	\$ 904,039
Operating Expenses	6,916,620	4,511,404	2,405,216
COVID-19 Operating Expenses	500,000	-	500,000
Capital Assets	15,000	14,095	905
Grants	27,264,555	20,681,988	6,582,567
COVID-19 Specialty Grants	5,000,000	-	5,000,000
Intermodal Facility Grants	2,000,000	-	2,000,000
Grain Insolvency Litigation	100,000	77,358	22,642
Agricultural Products Utilization Commision	3,760,417	2,344,774	1,415,643
Board of Animal Health	962,118	425,087	537,031
Wildlife Services	1,457,400	1,457,400	-
Pipeline Oversight Program	200,000	81,771	118,229
Crop Harmonization Board	75,000	68,332	6,668
<b>Totals</b>	<b>\$ 62,483,856</b>	<b>\$ 42,990,916</b>	<b>\$ 19,492,940</b>

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
General	\$ 10,911,829	\$ 10,667,236	\$ 244,593
Other	51,572,027	32,323,680	19,248,347
<b>Totals</b>	<b>\$ 62,483,856</b>	<b>\$ 42,990,916</b>	<b>\$ 19,492,940</b>

Source: ConnectND Finance



# Status of Prior Recommendations

## Exceeded General Fund Appropriation Limits (Finding 19-1)

Implemented

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

**Status:** Implemented. The Department of Agriculture worked with the 2021 Legislative Assembly to modify wording of applicable session laws and sections of North Dakota Century Code to agree with the Department's interpretation regarding their authority to use "up to" \$50,000 of General Funds appropriated for salaries and wages for matching funds for the North Dakota Outdoor Heritage Fund grant provided for the Waterbank Program. This amendment allowed the Department of Agriculture to use any remaining amounts on other salaries and wages. In addition, we did not identify any instances where the Department exceeded appropriation limits during our audit period.






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)

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