



Financial Statements  
June 30, 2021 and 2020

# Office of the State Auditor

# OFFICE OF THE STATE AUDITOR

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For the Biennium Ended June 30, 2021

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# OFFICE OF THE STATE AUDITOR

Officials and Audit Personnel

June 30, 2021

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## OFFICIALS

Joshua C. Gallion  
Brianna Ludwig  
Heidi Morman  
James Carroll  
Dan Cox  
Allison Bader  
Robyn Hoffmann  
Lindsey Slappy  
Dustin Walcker  
Dennis Roller  
Heath Erickson

State Auditor  
Deputy State Auditor  
Business Manager  
Accountant  
Quality Assurance Manager  
Manager – Agency  
Manager – Agency  
Manager – Agency  
Manager – Information Systems  
Manager – Mineral Royalty  
Manager – Local Government



## Independent Auditor's Report

Governor of North Dakota  
The Legislative Assembly

Office of the State Auditor  
Bismarck, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Office of the State Auditor's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of and for the years ended June 30, 2021 and 2020, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Correction of Error**

As discussed in Note 10 to the financial statements, certain errors resulting in misstatements of amounts previously reported for cash and payroll expenditures as of June 30, 2019, were discovered during the current year. Accordingly, adjustments have been made to beginning fund balance in the general and operating funds as of July 1, 2019 to correct the error. Our opinions are not modified with respect to these matters.

## **Departmental Statements**

As discussed in Note 1, the financial statements of the Office of the State Auditor are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Office of the State Auditor. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2021 and 2020, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Budgetary Comparison Schedule, Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions, Schedule of Employer's Share of Net OPEB Liability and Employer Contributions, and notes to the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office of the State Auditor's financial statements. The Office of the State Auditor Officials and Audit Personnel are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2022, on our consideration of the Office of the State Auditor’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office of the State Auditor’s internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Bismarck, North Dakota  
January 25, 2022

**OFFICE OF THE STATE AUDITOR**

Statement of Net Position

June 30, 2021

	<u>Governmental Activities</u>
	<u>2021</u>
<b>ASSETS</b>	
Cash and Investments	\$ 259,101
Due from Local Governments	348,543
Due from Federal Government	145,101
Due from Other State Agencies	186,532
Due from State General Fund	367,222
Capital Assets, Net	4,977
	<hr/>
Total Assets	\$ 1,311,476
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Derived from Pension and OPEB	\$ 6,131,895
	<hr/>
Total Assets & Deferred Outflows of Resources	\$ 7,443,371
<b>LIABILITIES</b>	
Accounts Payable	\$ 21,295
Salary and Benefits Payable	467,727
Due to Other State Agencies	25,355
Due to State General Fund	288,572
Long-Term Liabilities	
Due Within One Year	
Compensated Absences Payable	38,547
Due After One Year	
Compensated Absences Payable	346,919
Net Pension and OPEB Liability	10,303,574
	<hr/>
Total Liabilities	\$ 11,491,989
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Derived from Pension and OPEB	1,863,792
	<hr/>
Total Liabilities & Deferred Inflows of Resources	\$ 13,355,781
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 4,977
Unrestricted	(5,917,387)
	<hr/>
Total Net Position	\$ (5,912,410)

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Statement of Activities

For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities Primary Government
<b>Primary Government</b>					
Administration	\$ 1,096,418	\$ -	\$ -	\$ -	\$ (1,096,418)
State Agency Audits	4,295,552	1,526,448	-	-	(2,769,104)
NDUS Performance Audits	38,661	-	-	-	(38,661)
Mineral Royalty Audits	815,730	-	650,907	-	(164,823)
Local Government Audits	1,705,624	1,456,014	-	-	(249,610)
Total Primary Government	<u>\$ 7,951,985</u>	<u>\$2,982,462</u>	<u>\$ 650,907</u>	<u>\$ -</u>	<u>\$ (4,318,616)</u>
<b>General Revenues</b>					
Interest Income				\$	289
Miscellaneous					124
Transfers from State General Fund					2,935,737
Total General Revenues				<u>\$</u>	<u>2,936,150</u>
Change in Net Position				<u>\$</u>	<u>(1,382,466)</u>
Net Position - July 1				<u>\$</u>	<u>(4,529,944)</u>
Net Position - June 30				<u>\$</u>	<u>(5,912,410)</u>

The notes to the financial statements are an integral part of this statement.



**OFFICE OF THE STATE AUDITOR**

Balance Sheet – Governmental Funds

June 30, 2021

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Federal	Operating		
<b>ASSETS</b>					
Cash and Investments	\$ -	\$ -	\$ 258,334	\$ 767	\$ 259,101
Due from Local Governments	-	-	348,543	-	348,543
Due from Federal Government	-	145,101	-	-	145,101
Due from Other State Agencies	186,532	-	-	-	186,532
Due from State General Fund	367,208	-	14	-	367,222
<b>Total Assets</b>	<b>\$ 553,740</b>	<b>\$ 145,101</b>	<b>\$ 606,891</b>	<b>\$ 767</b>	<b>\$ 1,306,499</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities					
Accounts Payable	\$ 19,237	\$ 314	\$ 1,744	\$ -	\$ 21,295
Salaries and Benefits Payable	330,631	41,648	95,448	-	467,727
Due to Other State Agencies	17,340	1,099	6,916	-	25,355
Due to State General Fund	186,532	102,040	-	-	288,572
<b>Total Liabilities</b>	<b>\$ 553,740</b>	<b>\$ 145,101</b>	<b>\$ 104,108</b>	<b>\$ -</b>	<b>\$ 802,949</b>
Fund Balances					
Committed					
Operating	\$ -	\$ -	\$ 502,783	\$ 767	\$ 503,550
<b>Total Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 502,783</b>	<b>\$ 767</b>	<b>\$ 503,550</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 553,740</b>	<b>\$ 145,101</b>	<b>\$ 606,891</b>	<b>\$ 767</b>	<b>\$ 1,306,499</b>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
June 30, 2021

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**Total Fund Balances for Governmental Funds** \$ 503,550

Total net position reported for government activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 4,977

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions and OPEB	\$ 6,131,895	
Deferred Inflows Related to Pensions and OPEB	<u>(1,863,792)</u>	4,268,103

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.

Net Pension and OPEB Liability	(10,303,574)	
Compensated Absences Payable	<u>(385,466)</u>	<u>(10,689,040)</u>

**Total Net Position of Governmental Activities** \$ (5,912,410)

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
 For the Year Ended June 30, 2021

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Federal	Operating		
<b>Revenues</b>					
Intergovernmental	\$ -	\$ 660,171	\$ -	\$ -	\$ 660,171
Charges for Services	1,526,448	-	1,456,014	-	2,982,462
Interest Income	-	-	289	-	289
Miscellaneous	124	-	-	-	124
<b>Total Revenues</b>	<b>\$ 1,526,572</b>	<b>\$ 660,171</b>	<b>\$ 1,456,303</b>	<b>\$ -</b>	<b>\$ 3,643,046</b>
<b>Expenditures</b>					
Current					
Administration	\$ 885,584	\$ -	\$ -	\$ -	\$ 885,584
State Audits	3,538,064	-	-	-	3,538,064
NDUS Performance Audits	38,661	-	-	-	38,661
Mineral Royalty Audits	-	650,908	-	-	650,908
Local Government Audits	-	-	1,440,301	-	1,440,301
Other	-	9,263	-	-	9,263
<b>Total Expenditures</b>	<b>\$ 4,462,309</b>	<b>\$ 660,171</b>	<b>\$ 1,440,301</b>	<b>\$ -</b>	<b>\$ 6,562,781</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,935,737)	\$ -	\$ 16,002	\$ -	\$ (2,919,735)
<b>Other Financing Sources (Uses)</b>					
Transfers from State General Fund	\$ 4,462,185	\$ -	\$ -	\$ -	\$ 4,462,185
Transfers to State General Fund	(1,526,448)	-	-	-	(1,526,448)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,935,737</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,935,737</b>
<b>Net Change in Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,002</b>	<b>\$ -</b>	<b>\$ 16,002</b>
Fund Balance - July 1	\$ -	\$ -	\$ 486,781	\$ 767	\$ 487,548
Fund Balance - June 30	\$ -	\$ -	\$ 502,783	\$ 767	\$ 503,550

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2021

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**Net Change in *Fund Balances* - Total Governmental Funds** \$ 16,002

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Depreciation Expense	\$ (2,133)	(2,133)
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The net pension liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Increase in Net Pension Liability and OPEB	\$ (6,117,387)	
Increase in Deferred Intflows of Resources Related to Pensions and OPEB	4,197,989	
Decrease in Deferred Outflows of Resources Related to Pensions and OPEB	<u>517,372</u>	(1,402,026)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Decrease in Compensated Absences Liability	\$ <u>5,691</u>	5,691
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**Change in Net Position of Governmental Activities** \$ (1,382,466)

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Statement of Net Position

June 30, 2020

	<u>Governmental Activities</u>
	<u>2020</u>
<b>ASSETS</b>	
Cash and Investments	\$ 331,930
Due from Local Governments	226,615
Due from Federal Government	164,530
Due from Other State Agencies	482,209
Due from State General Fund	344,078
Capital Assets, Net	<u>7,110</u>
 Total Assets	 \$ <u>1,556,472</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Derived from Pension and OPEB	\$ <u>1,933,906</u>
 Total Assets & Deferred Outflows of Resources	 \$ <u>3,490,378</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 7,868
Salary and Benefits Payable	435,798
Due to Other State Agencies	20,069
Due to State General Fund	598,079
Long-Term Liabilities	
Due Within One Year	
Compensated Absences Payable	39,116
Due After One Year	
Compensated Absences Payable	352,041
Net Pension and OPEB Liability	<u>4,186,187</u>
 Total Liabilities	 \$ <u>5,639,158</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Derived from Pension and OPEB	<u>2,381,164</u>
 Total Liabilities & Deferred Inflows of Resources	 \$ <u>8,020,322</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 7,110
Unrestricted	<u>(4,537,054)</u>
 Total Net Position	 \$ <u><u>(4,529,944)</u></u>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Statement of Activities

For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities Primary Government
<b>Primary Government</b>					
Administration	\$ 1,002,775	\$ -	\$ -	\$ -	\$ (1,002,775)
State Agency Audits	3,334,930	765,428	-	-	(2,569,502)
NDUS Performance Audits	374,567	-	-	-	(374,567)
Mineral Royalty Audits	679,794	-	642,926	-	(36,868)
Local Government Audits	1,000,195	1,177,754	-	-	177,559
Interest on Long-Term Debt	2	-	-	-	(2)
<b>Total Primary Government</b>	<b>\$ 6,392,263</b>	<b>\$1,943,182</b>	<b>\$ 642,926</b>	<b>\$ -</b>	<b>\$ (3,806,155)</b>
<b>General Revenues</b>					
Interest Income				\$	377
Miscellaneous					(510)
Transfers from State General Fund					3,730,995
<b>Total General Revenues</b>				<b>\$</b>	<b>3,730,862</b>
<b>Change in Net Position</b>				<b>\$</b>	<b>(75,293)</b>
<b>Net Position - July 1</b>				<b>\$</b>	<b>(4,454,651)</b>
<b>Net Position - June 30</b>				<b>\$</b>	<b>(4,529,944)</b>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Balance Sheet – Governmental Funds

June 30, 2020

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Federal	Operating		
<b>ASSETS</b>					
Cash and Investments	\$ -	\$ -	\$ 331,163	\$ 767	\$ 331,930
Due from Local Governments	-	-	226,615	-	\$ 226,615
Due from Federal Government	-	164,530	-	-	\$ 164,530
Due from Other State Agencies	482,209	-	-	-	\$ 482,209
Due from State General Fund	344,049	-	29	-	\$ 344,078
<b>Total Assets</b>	<b>\$ 826,258</b>	<b>\$ 164,530</b>	<b>\$ 557,807</b>	<b>\$ 767</b>	<b>\$ 1,549,362</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities					
Accounts Payable	\$ 6,088	\$ 269	\$ 1,511	\$ -	\$ 7,868
Salaries and Benefits Payable	322,124	47,304	66,370	-	435,798
Due to Other State Agencies	15,837	1,087	3,145	-	20,069
Due to State General Fund	482,209	115,870	-	-	598,079
<b>Total Liabilities</b>	<b>\$ 826,258</b>	<b>\$ 164,530</b>	<b>\$ 71,026</b>	<b>\$ -</b>	<b>\$ 1,061,814</b>
Fund Balances					
Committed					
Operating	\$ -	\$ -	\$ 486,781	\$ 767	\$ 487,548
<b>Total Fund Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 486,781</b>	<b>\$ 767</b>	<b>\$ 487,548</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 826,258</b>	<b>\$ 164,530</b>	<b>\$ 557,807</b>	<b>\$ 767</b>	<b>\$ 1,549,362</b>

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
June 30, 2020

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**Total Fund Balances for Governmental Funds** \$ 487,548

Total net position reported for government activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds. 7,110

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions and OPEB	\$ 1,933,906	
Deferred Inflows Related to Pensions and OPEB	<u>(2,381,164)</u>	(447,258)

Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net position.

Net Pension and OPEB Liability	\$ (4,186,187)	
Compensated Absences Payable	<u>(391,157)</u>	<u>(4,577,344)</u>

**Total Net Position of Governmental Activities** \$ (4,529,944)

The notes to the financial statements are an integral part of this statement.



**OFFICE OF THE STATE AUDITOR**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
 For the Year Ended June 30, 2020

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Federal	Operating		
<b>Revenues</b>					
Intergovernmental	\$ -	\$ 644,528	\$ -	\$ -	\$ 644,528
Charges for Services	765,428	-	1,177,754	-	1,943,182
Interest Income	-	-	377	-	377
Miscellaneous	(123)	-	(1,154)	767	(510)
<b>Total Revenues</b>	<b>\$ 765,305</b>	<b>\$ 644,528</b>	<b>\$ 1,176,977</b>	<b>\$ 767</b>	<b>\$ 2,587,577</b>
<b>Expenditures</b>					
Current					
Administration	\$ 934,752	\$ -	\$ -	\$ -	\$ 934,752
State Audits	3,150,796	-	-	-	3,150,796
NDUS Performance Audits	355,628	-	-	-	355,628
Mineral Royalty Audits	-	642,926	-	-	642,926
Local Government Audits	-	-	949,789	-	949,789
Other	-	1,602	-	-	1,602
Debt Service					
Principal	260	-	-	-	260
Interest and Fees	2	-	-	-	2
<b>Total Expenditures</b>	<b>\$ 4,441,438</b>	<b>\$ 644,528</b>	<b>\$ 949,789</b>	<b>\$ -</b>	<b>\$ 6,035,755</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (3,676,133)	\$ -	\$ 227,188	\$ 767	\$ (3,448,178)
<b>Other Financing Sources (Uses)</b>					
Transfers from State General Fund	\$ 4,441,561	\$ -	\$ -	\$ -	\$ 4,441,561
Transfers to State General Fund	(710,566)	-	-	-	(710,566)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 3,730,995</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,730,995</b>
<b>Net Change in Fund Balances</b>	<b>\$ 54,862</b>	<b>\$ -</b>	<b>\$ 227,188</b>	<b>\$ 767</b>	<b>\$ 282,817</b>
Fund Balance - July 1, As Previously Reported	\$ -	\$ -	\$ 204,731	\$ -	\$ 204,731
Prior Period Adjustment	\$ (54,862)	\$ -	\$ 54,862	\$ -	\$ -
Fund Balance - July 1, As Restated	\$ (54,862)	\$ -	\$ 259,593	\$ -	\$ 204,731
Fund Balance - June 30	\$ -	\$ -	\$ 486,781	\$ 767	\$ 487,548

The notes to the financial statements are an integral part of this statement.

**OFFICE OF THE STATE AUDITOR**

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2020

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**Net Change in Fund Balances - Total Governmental Funds** \$ 282,817

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Depreciation Expense	\$ (9,511)	(9,511)
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The proceeds of debt issuances are reporting as other financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Repayment of Debt	\$ 260	260
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The net pension liability and related deferred outflows of resources and deferred inflows of resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Decrease in Net Pension Liability and OPEB	\$ 2,171,391	
Decrease in Deferred Intflows of Resources Related to Pensions and OPEB	(693,058)	
Increase in Deferred Outflows of Resources Related to Pensions and OPEB	(1,829,713)	(351,380)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Decrease in Compensated Absences Liability	\$ 2,521	2,521
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**Change in Net Position of Governmental Activities** \$ (75,293)

The notes to the financial statements are an integral part of this statement.

# OFFICE OF THE STATE AUDITOR

Notes to the Financial Statements  
For the Biennium Ended June 30, 2021

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## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Office of the State Auditor have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Office of the State Auditor's accounting policies are described below.

### **A. Reporting Entity**

The accompanying financial statements present the activities of the Office of the State Auditor. The Office of the State Auditor has considered all potential component units for which the Office of the State Auditor is financially accountable and other organizations for which the nature and significance of their relationships with the Office of the State Auditor such that exclusion would cause the Office of the State Auditor's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Office of the State Auditor to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Office of the State Auditor.

Based upon these criteria, there are no component units to be included within the Office of the State Auditor as a reporting entity and the Office of the State Auditor is an agency within the State of North Dakota as a reporting entity.

### **B. Basis of Presentation**

*Government-wide statements.* The statement of net position and the statement of activities display information on all activities of the Office of the State Auditor. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions.

The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net Investment in capital assets - consists of a capital asset, net of accumulated depreciation.

Restricted net position - results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net position restricted by enabling legislation is subject to change by a majority vote of the Legislative Assembly.

Unrestricted net position - consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate management does not consider it to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management but can be removed or modified.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Office of the State Auditor's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (b) grants and contributions that are restricted to meeting the operational requirements of a particular function.

*Fund Financial Statements.* The fund financial statements provide information about the Office of the State Auditor's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

## OFFICE OF THE STATE AUDITOR

### Notes to the Financial Statements – Continued

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The Office of the State Auditor reports the following major governmental funds:

General Fund – This is the principle operating fund of the agency. It is used to account for all financial resources that are not accounted for in other funds. Included are transactions involving administration, state agency audits, and NDUS performance audits.

Federal Fund - This fund is classified as a special revenue fund and accounts for all the financial resources from the federal government, which finances the Mineral Royalty Audit Division.

Operating Fund - This fund is classified as a special revenue fund and accounts for all activities of the Local Government Division.

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government-wide Financial Statements.* The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available.

Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenues that are determined to be susceptible to accrual include federal grants and audit fees. All revenues are determined to be available if collected within one year of fiscal year-end. Revenues earned under the terms of reimbursement agreements with other governments are recorded at the time the related expenditures are made if other eligibility requirements have been met.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

### **D. General Budgetary Policies and Procedures**

The Office of the State Auditor operates through a biennial appropriation provided by the State Legislature. The Office prepares a biennial budget, which is included in the Governor's budget presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override.

Once passed and signed, the appropriation bill becomes the department's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, referendum, or allotment action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. Unexpended appropriations lapse at the end of each biennium.

The biennial budget is prepared primarily on a cash basis. Encumbrance accounting is not used. The legal level of budgetary control is at the funding source and expenditure line item level. Revenues are not formally budgeted and expenditures are not budgeted by fund. The agency appropriation is defined through the use of specific expenditure line items.

### **E. Cash**

Cash consists of money on deposit with the State Treasurer.

**OFFICE OF THE STATE AUDITOR**

Notes to the Financial Statements – Continued

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**F. Receivables**

Receivables include amounts “due from other state agencies” (state agency audits) and “due from local governments” (local government audits) for audits performed during the year.

**G. Due From State General Fund**

“Due from state general fund” is the amount needed from the state general fund to liquidate accrued payroll and liabilities of the Office of the State Auditor general fund.

**H. Due From Federal Government**

The Office of the State Auditor has a contract with the United States Department of the Interior – Office of Natural Resource Revenue for audit and related investigations of federal oil and gas leases located in the state of North Dakota. It is the Office of the State Auditor’s policy to recognize federal revenue as allowable expenditures are incurred. Due from federal government represents amounts receivable for reimbursable expenditures incurred by June 30.

**I. Transfers**

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. “Transfers In” consists of transfers from the state’s general fund and “Transfers Out” consists of transfers to the state’s general fund.

**J. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs are reported as debt service expenditures.

**K. Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS’ fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**L. Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS’ fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**M. Net Position/Fund Balances**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources on the agency-wide statements. Fund balance represents the difference between assets and liabilities on the governmental fund statements. Fund balance classifications for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is not in spendable form such as inventories and prepaids. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

**OFFICE OF THE STATE AUDITOR**

Notes to the Financial Statements – Continued

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The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority, the state’s legislature, through legislation, that is not considered as enabling legislation, passed into law.

Assigned fund balance classifications are used when the amounts are to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The assignment of fund balance is generally initiated by the executive branch and later appropriated by the Legislature for a specific purpose.

Unassigned fund balance is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification would only be used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The balance sheet amounts shown as committed fund balances in the operating fund can be used only for expenses relating to political subdivision audits in accordance with North Dakota Century Code. This commitment of fund balance can only be changed by an act of the State Legislature. The balance sheet amounts shown as assigned in the other governmental funds can only be used for conference activity.

**N. New Accounting Pronouncements**

During fiscal year 2020, the State Auditor’s Office adopted GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delayed all fiscal year 2020 pronouncements until fiscal year 2021 due to the coronavirus pandemic.

**NOTE 2: DEPOSITS**

**Custodial Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution’s failure, the Office of the State Auditor would not be able to recover the deposits or collateralized securities that in the possession of the outside parties.

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “all state funds . . . must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

At June 30, 2021 and 2020, the bank balances of the Office of the State Auditor’s deposits were \$259,101 and \$331,930, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Office of the State Auditor’s deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these deposits are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

**NOTE 3: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended June 30, 2021:

<b>Governmental Activities</b>	<b>Balance 7/1/20</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 6/30/21</b>
<i>Capital assets, being depreciated</i>					
Equipment	\$ 33,743	\$ -	\$ -	\$ -	\$ 33,743
Total Capital Assets, Being Depreciated	\$ 33,743	\$ -	\$ -	\$ -	\$ 33,743
<i>Less accumulated depreciation for Equipment*</i>	26,633	2,133	-	-	28,766
Total Accumulated Depreciation	\$ 26,633	\$ 2,133	\$ -	\$ -	\$ 28,766
Total Capital Assets Being Depreciated, Net	\$ 7,110	\$ (2,133)	\$ -	\$ -	\$ 4,977
Total Capital Assets, Net	\$ 7,110	\$ (2,133)	\$ -	\$ -	\$ 4,977

\*Depreciation expense was charged to functions of the Administration function.

The following is a summary of changes in capital assets for the year ended June 30, 2020:

<b>Governmental Activities</b>	<b>Balance 7/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 6/30/20</b>
<i>Capital assets, being depreciated</i>					
Equipment	\$ 33,743	\$ -	\$ -	\$ -	\$ 33,743
Total Capital Assets, Being Depreciated	\$ 33,743	\$ -	\$ -	\$ -	\$ 33,743
<i>Less accumulated depreciation for Equipment*</i>	17,122	9,511	-	-	26,633
Total Accumulated Depreciation	\$ 17,122	\$ 9,511	\$ -	\$ -	\$ 26,633
Total Capital Assets Being Depreciated, Net	\$ 16,621	\$ (9,511)	\$ -	\$ -	\$ 7,110
Total Capital Assets, Net	\$ 16,621	\$ (9,511)	\$ -	\$ -	\$ 7,110

\*Depreciation expense was charged to functions of the Administration function.

**NOTE 4: LONG-TERM LIABILITIES**

**Primary Government**

During the year ended June 30, 2021, the following changes occurred in governmental activities long-term liabilities:

<b>Governmental Activities</b>	<b>Balance 7/1/20</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 6/30/21</b>	<b>Due Within One Year</b>
Long-Term Debt					
Leases	\$ -	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated Absences*	\$ 391,157	\$ -	\$ 5,691	\$ 385,466	\$ 38,547
Net Pension and OPEB Liability*	4,186,187	6,117,387	-	10,303,574	-
Total Long-Term Liabilities	\$ 4,577,344	\$ 6,117,387	\$ 5,691	\$ 10,689,040	\$ 38,547

During the year ended June 30, 2020, the following changes occurred in governmental activities long-term liabilities:

<b>Governmental Activities</b>	<b>Balance 7/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 6/30/20</b>	<b>Due Within One Year</b>
Long-Term Debt					
Leases	\$ 260	\$ -	\$ 260	\$ -	\$ -
Total Long-Term Debt	\$ 260	\$ -	\$ 260	\$ -	\$ -
Compensated Absences*	\$ 393,678	\$ -	\$ 2,521	\$ 391,157	\$ 39,116
Net Pension and OPEB Liability*	6,357,578	-	2,171,391	4,186,187	-
Total Long-Term Liabilities	\$ 6,751,516	\$ -	\$ 2,174,172	\$ 4,577,344	\$ 39,116

**NOTE 5: CAPITAL LEASE**

The Office of the State Auditor is obligated under a capital lease for a copy machine. The five-year lease was entered into in August 2014 for a copy machine with a cost of \$12,297. In the agency-wide statements, a capital asset and a corresponding liability are recorded at the inception of the lease. The liability is reduced by payments of principal, with the payments of interest allocated to expense. For capital leases in governmental funds, other financing sources and capital outlay are recorded at lease inception. Lease payments are recorded as expenditures.

The capital lease was terminated at the end of the lease term. Final payment was issued in July 2019. The machine was returned to the vendor and a new copy machine was purchased outright and recorded as a capital asset.

**NOTE 6: OPERATING LEASES**

The Office of the State Auditor leases office space under cancelable operating leases. Total expenditures for these leases for the years ended June 30, 2021 and 2020 was \$133,409 and \$127,964, respectively.

**NOTE 7: PENSION PLAN**

**General Information about the NDPERS Pension Plan**

***North Dakota Public Employees Retirement System (Main System)***

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**Pension Benefits**

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier



was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

**Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

**Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Members hired prior to January 1, 2020 contribution rates are 7% and employer contributions rates are 7.12% of covered compensation. Members hired January 1, 2020 and later member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

1 to 12 months of service	Greater of one percent of monthly salary or \$25
13 to 24 months of service	Greater of two percent of monthly salary or \$25
25 to 36 months of service	Greater of three percent of monthly salary or \$25
Longer than 36 months of service	Greater of four percent of monthly salary or \$25

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2021 and June 30, 2020, the following net pension liabilities were reported:

	<b>Net Pension Liability</b>
<b>FY2021</b>	\$ (10,062,612)
<b>FY2020</b>	(3,934,834)

**OFFICE OF THE STATE AUDITOR**

Notes to the Financial Statements – Continued

The net pension liability for FY2021 and FY2020 were measured as of June 30, 2020 and June 30, 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The proportion of the net pension liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2020 and June 30, 2019, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2019 and June 30, 2018 measurement	Pension Expense
<b>FY2021</b>	0.319852%	-0.015864%	\$ 1,657,568
<b>FY2020</b>	0.335716%	-0.025192%	625,206

At June 30, 2021, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 39,160	\$ 509,882
Changes of Assumptions	5,394,195	891,794
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	324,770	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	24,227	420,358
Employer Contributions Subsequent to the Measurement Date	266,875	-
<b>Total</b>	<b>\$ 6,049,227</b>	<b>\$ 1,822,034</b>

At June 30, 2020, the following deferred outflows of resources and deferred inflows of resources were reported related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 2,332	\$ 714,097
Changes of Assumptions	1,470,344	1,262,418
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	68,554	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	51,000	371,632
Employer Contributions Subsequent to the Measurement Date	263,296	-
<b>Total</b>	<b>\$ 1,855,526</b>	<b>\$ 2,348,147</b>

\$266,875 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2021	\$ 1,192,144
2022	993,480
2023	801,280
2024	973,414
2025	-

**Actuarial Assumptions**

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long -Term Expected Real Rate of Return</b>
Domestic Equity	30%	6.30%
International Equity	21%	6.85%
Private Equity	7%	9.75%
Domestic Fixed Income	23%	1.25%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.01%
Cash Equivalents	0%	0.00%

**Discount Rate**

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected 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 AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan’s fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2057. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2057, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

**Sensitivity of the Agency’s Proportionate Share of the Net Pension Liability to Changes in the Discount rate**

The following presents the Office of the State Auditor’s proportionate share of the net pension liability at June 30, 2020 and June 30, 2019 calculated using the discount rate of 4.64 and 7.50 percent, respectively, as well as what the Office of the State Auditor’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<b>1% Decrease (3.64%)</b>	<b>Current Discount Rate (4.64%)</b>	<b>1% Increase (5.64%)</b>
<b>FY2021</b>			
Proportionate Share of the Net Pension Liability	\$ 13,055,484	\$ 10,062,612	\$ 7,613,714
	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
<b>FY2020</b>			
Proportionate Share of the Net Pension Liability	\$ 5,641,706	\$ 3,934,834	\$ 2,500,764

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in a separately issued NDPERS financial report.

**NOTE 8: OPEB PLAN**

**General Information about the OPEB Plan**

**North Dakota Public Employees Retirement System**

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member’s years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

**OPEB Benefits**

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as *"prefunded credit applied"* on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

**OFFICE OF THE STATE AUDITOR**

Notes to the Financial Statements – Continued

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to \$5.00 for each of the employee’s, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2021 and June 30, 2020, the following net OPEB liabilities were reported:

	<b>Net OPEB Liability</b>
<b>FY2021</b>	\$ 240,962
<b>FY2020</b>	251,353

The net FY2021 and FY2020 OPEB liabilities were measured as of June 30, 2020 and June 30, 2019 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2020 and June 30, 2019, the entities had the following proportions, change in proportions, and pension expense:

	Proportion	Increase (Decrease) in Proportion from June 30, 2017 and June 30, 2016 measurement	Pension Expense
<b>FY2021</b>	0.286451%	-0.026494%	\$ 27,834
<b>FY2020</b>	0.312945%	-0.025898%	29,949

At June 30, 2021, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences Between Expected and Actual Experience	\$ 5,352	\$ 5,777
Changes of Assumptions	32,308	-
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	8,286	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	527	35,981
Employer Contributions Subsequent to the Measurement Date	36,195	-
<b>Total</b>	<b>\$ 82,668</b>	<b>\$ 41,758</b>

**OFFICE OF THE STATE AUDITOR**

Notes to the Financial Statements – Continued

At June 30, 2020, the following deferred outflows of resources and deferred inflows of resources were reported related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 6,208	\$ 7,852
Changes of Assumptions	29,957	-
Net Difference Between Projected and Actual Investment		
Earnings on OPEB Plan Investments	280	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	683	25,165
Employer Contributions Subsequent to the Measurement Date	41,252	-
<b>Total</b>	<b>\$ 78,380</b>	<b>\$ 33,017</b>

\$36,195 is reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

2021	\$ 910
2022	3,052
2023	2,659
2024	149
2025	(1,828)
2026	(227)
Thereafter	-

**Actuarial assumptions**

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	Not applicable
Investment Rate of Return	6.50%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC’s target asset allocation as of July 1, 2020 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Domestic Equities	33%	6.10%
Small Cap Domestic Equities	6%	7.00%
International Equities	21%	6.45%
Domestic Fixed Income	40%	1.15%

**Discount rate**

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the County's and Health District's proportionate share of the net OPEB liability to changes in the discount rate**

The following presents the net OPEB liability of the Plans as of June 30, 2020 and June 30, 2019, calculated using the discount rate of 6.50% and 7.25%, respectively, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<b>1% Decrease (5.50%)</b>	<b>Current Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
<b>FY2021</b>			
Proportionate Share of the Net OPEB Liability	\$ 316,027	\$ 240,962	\$ 177,484

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
<b>FY2020</b>			
Proportionate Share of the Net OPEB Liability	\$ 320,819	\$ 251,353	\$ 191,891

**NOTE 9: RISK MANAGEMENT**

The Office of the State Auditor is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state and its agencies' employees, and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

**OFFICE OF THE STATE AUDITOR**

Notes to the Financial Statements – Continued

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The Office of the State Auditor also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence. The State Bonding Fund currently provides the Office with blanket fidelity bond coverage in the amount of \$2,000,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Office participates in the North Dakota Worker’s Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau is a state insurance fund and a “no fault” insurance system covering the state’s employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 10: PRIOR PERIOD ADJUSTMENTS**

**Prior Period Errors**

Beginning fund balance adjustments were necessary for errors in payroll payments. Two employees were paid from the operating fund that were general funded employees, totaling \$54,862. A transfer was completed by the Office of Management and Budget to correct the previous biennium error and correct the cash balance in the operating fund. No restatement of the previous period net position is required as the transfer was between two funds of the agency.

**NOTE 11: RELATED PARTIES**

As noted in “Note 1” of these financial statements, the Office of the State Auditor is an agency of the state of North Dakota; therefore other agencies of the state are related parties.

**NOTE 12: CONTINGENCY**

Subsequent to June 30, 2021, the Office of the State Auditor was made aware of a claim filed against them. The claim is being vigorously defended by the Office of the Attorney General. As of June 30, 2021, the Office of the State Auditor has not recorded any loss related to the claim as, at this point in time, an estimate of potential loss cannot be reasonably determined.



**OFFICE OF THE STATE AUDITOR**  
 Budgetary Comparison Schedule – All Funds  
 For the Biennium Ended June 30, 2021

	Original Appropriation	Adjustments	Final Appropriation	Actual	Variance with Final Budget
<b>Resources</b>					
General Fund Transfer	\$10,122,860	\$ (5,528)	\$10,117,332	\$ 8,903,746	\$ (1,213,586)
General Fund Revenue	-	-	-	2,291,876	2,291,876
Federal Fund Revenue	1,337,614	10,866	1,348,480	1,304,699	(43,781)
Special Fund Revenue	2,835,564	-	2,835,564	2,633,280	(202,284)
Insurance Recovery Revenue	-	-	-	767	767
Amounts Available for Appropriation	\$14,296,038	\$ 5,338	\$14,301,376	\$15,134,368	\$ 832,992
<b>Charges to Appropriations</b>					
Payroll	\$12,668,218	\$ (24,528)	\$12,643,690	\$11,000,396	\$ 1,643,294
Operating	1,161,820	45,866	1,207,686	1,179,622	28,064
Capital Assets	16,000	(16,000)	-	-	-
Information Technology Consultants	450,000	-	450,000	421,641	28,359
Conference Expenses	-	-	-	-	-
Total Charges to Appropriations	\$14,296,038	\$ 5,338	\$14,301,376	\$12,601,659	\$ 1,699,717

**OFFICE OF THE STATE AUDITOR**

Schedule of Employer's Share of Net Pension Liability and Employer Contributions  
 For the Biennium Ended June 30, 2021

**Schedule of Employer's Share of Net Pension Liability  
 ND Public Employee's Retirement System  
 Last 10 Fiscal Years**

	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.319852%	\$ 10,062,612	\$ 3,528,355	285.19%	48.91%
2020	0.335716%	3,934,834	3,492,017	112.68%	71.66%
2019	0.360908%	6,090,716	3,707,674	164.27%	62.80%
2018	0.378755%	6,087,836	3,866,491	157.45%	61.98%
2017	0.378334%	3,687,234	3,812,718	96.71%	70.46%
2016	0.356906%	2,426,900	3,179,602	76.33%	77.15%
2015	0.384925%	2,443,201	3,242,528	75.35%	77.70%

**Schedule of Employer Contributions  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years**

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$ 249,838	\$ 246,025	3,813	\$ 3,528,355	6.97%
2020	254,239	261,137	(6,898)	3,492,017	7.48%
2019	273,086	275,339	(2,253)	3,707,674	7.43%
2018	280,368	287,893	(7,525)	3,866,491	7.45%
2017	276,034	263,759	12,275	3,812,718	6.92%
2016	241,516	246,821	(5,305)	3,179,602	7.76%
2015	230,868	230,868	-	3,242,528	7.12%

The accompanying required supplementary information notes are an integral part of this schedule.

**OFFICE OF THE STATE AUDITOR**

Schedule of Employer's Share of Net OPEB Liability and Employer Contributions  
 For the Biennium Ended June 30, 2021

**Schedule of Employer's Share of Net OPEB Liability  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years**

	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2021	0.286451%	\$ 240,962	\$ 3,265,454	7.38%	63.38%
2020	0.312945%	251,353	3,492,017	7.20%	63.13%
2019	0.338843%	266,862	3,707,674	7.20%	61.89%
2018	0.357399%	282,706	3,866,491	7.31%	59.78%

**Schedule of Employer Contributions  
 ND Public Employees Retirement System  
 Last 10 Fiscal Years**

	Statutory Required Contribution	Contributions in Relation to the Statutory Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$ 38,362	\$ 38,829	(467)	\$ 3,265,454	1.19%
2020	40,612	41,811	(1,199)	3,492,017	1.20%
2019	43,489	44,085	(596)	3,707,674	1.19%
2018	44,945	46,096	(1,151)	3,866,491	1.19%

The accompanying required supplementary information notes are an integral part of this schedule.

## OFFICE OF THE STATE AUDITOR

Notes to the Required Supplementary Information  
For the Biennium Ended June 30, 2021

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### **NOTE 1: SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS**

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the Office of the State Auditor will present information for those years for which information is available.

### **NOTE 2: PENSION – CHANGES OF BENEFIT TERMS**

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020. The rates will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

### **NOTE 3: PENSION – CHANGES OF ASSUMPTIONS**

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.50% to 7.00%.
- The assumed rate of price inflation was lowered from 2.50% to 2.25%.
- The assumed rate of total payroll growth was updated.
- Mortality table updates were made.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

### **NOTE 4: OPEB – CHANGES OF BENEFIT TERMS**

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

### **NOTE 5: OPEB – CHANGES OF ASSUMPTIONS**

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%.

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.



**Independent Auditor's Comments Requested by the North Dakota Legislative  
Audit and Fiscal Review Committee**

Governor of North Dakota  
The Legislative Assembly

Office of the State Auditor  
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2021 and 2020, audits of the Office of the State Auditor are as follows:

**Audit Report Communications**

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

Unmodified

**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, other than the matters described in Audit Committee Communications #3 below.

**4. Were there any indications of lack of efficiency in financial operations and management of the agency?**

No

**5. Was action taken on prior audit findings and recommendations?**

Yes

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

No

## **Audit Committee Communications**

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

None

- 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?**

The most sensitive estimates affecting the financial statements were the valuation of the work-in-process receivables, net pension liability, and net OPEB liability. The estimate of the WIP receivables is based on the percentage of the audit completed divided by the total budgeted hours for the audit. The auditor's conclusion regarding the reasonableness of this estimate is based on accuracy of the estimates based on these factors. Management's estimate of the net pension liability and net OPEB liability are 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.

- 3. Identify any significant audit adjustments?**

Adjustment to WIP receivables and restatement to beginning fund balance for errors identified in cash and payroll expenditures for the year ended June 30, 2019.

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

None

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

None

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

None

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

None

- 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 assessed by auditors are directly related to the operations of an information technology system.**

None

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota  
January 25, 2022



**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***

Governor of North Dakota  
The Legislative Assembly

Office of the State Auditor  
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally 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, each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Office of the State Auditor’s basic financial statements, and have issued our report thereon dated January 25, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Office of the State Auditor’s internal control over financial reporting (internal control) as a basis for designing 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 Office of the State Auditor’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Auditor’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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001 that we consider to be a material weakness.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Office of the State Auditor's financial statements are free from 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 financial statements. 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.

**Office of the State Auditor's Response to Finding**

Office of the State Auditor's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Office of the State Auditor's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, professional style.

Bismarck, North Dakota  
January 25, 2022

## **2021-001 Audit Adjustments**

### **Material Weakness**

Criteria: Proper internal controls include controls that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition: The Office of the State Auditor identified an adjustment to accounts receivable after documents were submitted to Eide Bailly LLP. Additionally, during the year ended June 30, 2019, \$54,862 in salaries were paid from the operating fund that were general fund salaries.

Cause: The adjustment to accounts receivable was caused by human error. The payroll amount charged to the wrong fund was because of a delay in review of payroll expenditures charged to the general and operating funds.

Effect: Part of a financial statement line required updating after human error. The July 1, 2019, fund balance in the general and operating fund needed to be restated by \$54,862.

Recommendation: We recommend the financial statement account reconciliations be checked and reviewed prior to the audit. We also recommend the Office continue to use the control procedures implemented in January 2020 to ensure that future financial statements are accurate.

Views of Responsible Officials: The Office agrees. The Office of the State Auditor found the errors in accounts receivable, made the adjustments, and informed Eide Bailly of the adjustments. In January 2020, the Office identified salaries of two employees that were paid from the incorrect fund. At that time, the Office corrected the error and implemented new control procedures to review payroll monthly. The Office informed Eide Bailly of the prior period adjustment at the beginning of the audit. No errors were found by Eide Bailly in payroll testing for the current audit period or in testing the prior period adjustment.