



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## North Dakota Barley Council

Audit Report for the Two-Year Period Ended June 30, 2022

Client Code 626



# TABLE OF CONTENTS

<b>INDEPENDENT AUDITOR’S REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	<b>4</b>
Comparative Statement of Revenues and Expenditures	4
Notes to the Financial Statement	5
<b>EXHIBITS</b>	<b>7</b>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing     Standards</i>	7
Findings, Recommendations, and Management’s Response	9
Governance Communication	11



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**Independent Auditor's Report**

Members of the Legislative Assembly

Members of the North Dakota Barley Council

Steven Edwardson, North Dakota Barley Council Executive Administrator

**Report on the Audit of the Financial Statement**

***Opinion***

We have audited the accompanying Comparative Statement of Revenues and Expenditures of the North Dakota Barley Council Fund, for the two years ended June 30, 2022, and the related notes to the financial statement, as listed in the table of contents.

In our opinion, the accompanying financial statement referred to above present fairly, in all material respects, the revenues and expenditures for the North Dakota Barley Council Fund, for the two-year period ended June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the North Dakota Barley Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Emphasis of Matter***

As discussed in Note 1, the financial statement presents only the North Dakota Barley Council Fund's revenues and expenditures, and does not purport to, and does not present fairly the

financial position of the state of North Dakota as of June 30, 2022 and 2021, for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statement is presented and audited in accordance with North Dakota Century Code 4.1-44-04. This financial statement is not intended to be a complete presentation of the North Dakota Barley Council Fund's assets and liabilities. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statement***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statement***

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- obtain an understanding of internal control relevant to the audit 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 North Dakota Barley Council's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Other Reporting Required by the Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2022 on our consideration of the North Dakota Barley Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 North Dakota Barley Council's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Barley Council's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor  
Bismarck, North Dakota  
October 13, 2022

## Comparative Statement of Revenues and Expenditures

For the Years Ended June 30, 2022 and 2021

<u>REVENUES:</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Barley Assessments (net of refunds of \$15,271 and \$15,464)	\$ 410,530	\$ 574,549
Interest on Investments	2,831	6,448
Leases, Rents and Royalties	15,000	15,000
Miscellaneous General Revenue	6,099	216,312
Total Revenues	<u>\$ 434,460</u>	<u>\$ 812,309</u>
 <u>EXPENDITURES:</u>		
Grants, Benefits & Claims	\$ 233,122	\$ 161,120
Salaries - Permanent	152,000	152,000
Operating Fees and Services	134,945	133,249
Professional Development	65,541	50,654
Travel	55,269	17,264
Fringe Benefits	47,328	47,235
Rentals/Leases - Building/Land	8,400	8,400
Miscellaneous Supplies	7,420	4,667
IT Contractual Services and Repairs	4,878	4,135
IT - Communications	3,705	2,963
Building, Grounds, Vehicle Supply	3,665	3,931
Supply/Material - Professional	2,755	2,598
IT Equipment under \$5,000	2,730	8,625
Office Equip & Furniture - Under	2,174	1,241
Office Supplies	1,484	2,401
Printing	1,391	4,272
Postage	1,291	1,161
Insurance	1,210	926
Professional Fees and Services	1,025	7,450
Total Expenditures	<u>\$ 730,333</u>	<u>\$ 614,292</u>
 Revenues (Under) Over Expenditures	 <u>\$ (295,873)</u>	 <u>\$ 198,017</u>



## Notes to the Financial Statement

### NOTE 1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility for the financial statement, the internal control structure, and compliance with laws and regulations belongs to management of the North Dakota Barley Council (Council). A summary of the significant accounting policies follows:

#### A. REPORTING ENTITY

For financial reporting purposes, the Council includes all funds, programs, and activities over which it is financially accountable. The Council does not have any component units as defined by the Government Accounting Standards Board. The Council is part of the state of North Dakota as a reporting entity.

The Council was created by the 1983 Legislature through passage of the “Barley Industry Promotion Act”. Per chapter 4.1-02 of the North Dakota Century Code (NDCC) the duties of the Council include the funding of research, education programs, market development efforts and support of state, regional, national, and international entities that promote barley utilization.

The Council is composed of one participating grower elected from each of the five districts established in chapter 4.1-02 of the NDCC. NDCC section 4.1-02-12 states an assessment at the rate of twenty mills per bushel is imposed on all barley grown in the state, delivered into the state, or sold to a first purchaser in the state. The assessment does not apply to barley grown by a producer and used by the producer as livestock feed. Per section 4.1-02-13 of the NDCC, the first purchaser shall collect the assessment from the seller by deducting the assessment from the total price of the barley being purchased by the first purchaser. The Council shall forward all moneys received to the State Treasurer for deposit in the Barley Fund. The Council is responsible for and funded under a continuing appropriation.

#### B. REPORTING STRUCTURE

The financial statement includes all activities of the reporting entity as defined above. These activities are funded from fund 231, the Barley Growers Checkoff Fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

#### C. BASIS OF PRESENTATION

North Dakota Century Code 4.1-44-04 requires certain commodity promotion groups to prepare a report for the legislative assembly. As part of this report the applicable commodity groups are required to prepare a single-page uniform statement of revenues and expenditures.

Revenues and expenditures on the comparative statement of revenues and expenditures are reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e. measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within a year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principal and interest expenditures which are recorded when due and compensated absences which are recorded when paid.

#### **D. GAAP REPORTING DIFFERENCES**

GAAP financial statements would include a balance sheet. GAAP financial statements would also provide additional note disclosures.

#### **NOTE 2 | RELATED PARTIES**

As identified in Note 1, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Council made payments to North Dakota State University (NDSU) for fiscal years 2022 and 2021 in the amounts of \$87,642 and \$92,657 for barley research project contracts, respectively. The Council also made payments to the North Dakota State University (NDSU) Development Foundation for fiscal year 2022 in the amount of \$50,000 for sponsorships. The Council also has a particularly close working relationship with the North Dakota Grain Growers Association (NDGGA) and the US Grains Council (USGC). For fiscal year 2022, the Council paid \$132,500 and \$72,072 for promotional marketing and development contracts to NDGGA and USGC, respectively. For fiscal year 2021, the Council paid \$132,500 and \$69,300 for promotional marketing and development contracts to NDGGA and USGC, respectively.

#### **NOTE 3 | OTHER SIGNIFICANT ITEMS**

Council has cash and investment reserves of \$1,273,452 and \$1,545,941 at June 30, 2022 and June 30, 2021, respectively. Based on the average monthly expenditures for fiscal year 2022 and 2021, this amount represents approximately 21 and 30 months of expenditures, respectively.





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**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**

Independent Auditor's Report

Members of the Legislative Assembly

Members of the North Dakota Barley Council

Steven Edwardson, North Dakota Barley Council Executive Administrator

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 Comparative Statement of Revenues and Expenditures of the North Dakota Barley Council, for the two-year period ended June 30, 2022, and the related notes to the financial statement and have issued our report thereon dated October 13, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered North Dakota Barley Council'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Barley Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Barley Council'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 statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings, Recommendations and Managements Response as Finding 2022-01 that we consider to be a significant deficiency.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Barley Council's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

/S/

Joshua C. Gallion  
State Auditor  
Bismarck, ND  
October 13, 2022

## Findings, Recommendations, and Management's Response

### Finding 2022-01 – Inadequate Segregation of Duties

**Condition:**

The Barley Council only has one employee responsible for accounting functions. Inadequate segregation of duties exists as one employee is responsible to collect monies, prepare deposits, prepare and review time sheets, submit vouchers for payment, approve vouchers for payment, review the vendor check listing, mail the vendor check, prepare and review annual closing packages.

**Criteria:**

The GAO Standards for Internal Control in the Federal Government section 10.12 states: management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

The GAO Standards for Internal Control in the Federal Government section 10.13 states in part: segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override.

The GAO Standards for Internal Control in the Federal Government section 10.14 states: if segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

**Effect:**

The risk of fraud and misstatement of the Barley Council's financial statements increases with weakened internal controls and inadequate segregation of duties, whether due to error or fraud.

**Cause:**

The Barley Council has limited resources and only has one staff member, making it economically unfeasible to hire additional staff to properly distribute job duties.

**Recommendation:**

We recommend that:

- If it becomes feasible to segregate duties in the future, that duties are segregated to the extent possible to reduce the potential risk of loss.
- The Barley Council implement alternative control activities when possible.
- The Barley Council Board of Directors remain involved in the financial affairs of the Council.

**North Dakota Barley Council Response/Corrective Action Plan:**

Agreed. The Barley Council Board of Directors are (and will continue to be) involved in oversight of all revenue and expenditure transactions as well as all contracted projects. The Board of Directors will continue to refine segregation of duties as feasible, and expects advances in technology will further assist in this process (i. e. the use of electronic deposits and payments will continue to expand).



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**Governance Communication**

October 13, 2022

North Dakota Barley Council

Legislative Audit and Fiscal Review Committee

We have audited the financial statement of the governmental activities, of the North Dakota Barley Council for the two-year period ended June 30, 2022 and have issued our report thereon dated October 13, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2022. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Barley Council are described in Note 1 to the financial statement. No new accounting policies were adopted, and the application of existing policies was not changed during the two-year period. We noted no transactions entered into by the North Dakota Barley Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

***Difficulties Encountered in Performing the Audit***

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

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements noted in the audit.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 13, 2022.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the North Dakota Barley Council's financial statement or a determination of the type of auditor's opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

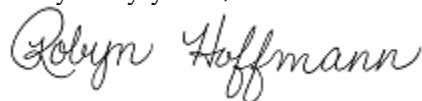
### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the North Dakota Barley Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Restriction on Use**

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

Very truly yours,



Robyn Hoffmann, CPA  
Audit Manager





NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION


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