



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## North Dakota Potato Council

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

Client Code 610



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**Independent Auditor's Report**

Members of the Legislative Assembly

Members of the North Dakota Potato Council

Diane Peycke, North Dakota Potato Council Executive Director

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

***Qualified Opinion***

We have audited the accompanying Comparative Statement of Revenues and Expenditures of the North Dakota Potato 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the revenues and expenditures for the North Dakota Potato 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 Qualified Opinion***

The North Dakota Potato Council has potato assessments received by designated handlers. This revenue was deposited in the Bank of North Dakota and recorded on PeopleSoft; however, we were unable to determine if the amounts deposited were correct because there was no reconciliation of the deposits to the designated handlers' reports. During our testing, we noted \$170,637 of the \$281,648 potato assessment deposits that were sampled, did not have adequate supporting documentation. This resulted in a projected error in the amount of \$722,905 for potato assessment revenue that may not have supporting documentation for fiscal years 2022 and 2021.

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 Potato 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 qualified audit opinion.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statement presents only the North Dakota Potato 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 Potato 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 statements.

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 Potato 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 28, 2022 on our consideration of the North Dakota Potato 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 Potato 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 Potato Council's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor  
Bismarck, North Dakota  
October 28, 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>
Potato Assessments (net of refunds of \$0 and \$2,595)	\$ 576,384	\$ 633,997
Interest on Investments	1,376	2,224
Total Revenues	<u>\$ 577,760</u>	<u>\$ 636,221</u>
<u>EXPENDITURES:</u>		
Contractual Fees	\$ 518,000	\$ 516,974
Risk Management Premiums	551	567
Printing	527	
Postage Meter	212	188
Non State Employee Travel	101	
Networking & Line Charges	66	780
Audit		5,600
Total Expenditures	<u>\$ 519,457</u>	<u>\$ 524,109</u>
Revenues Over Expenditures	<u>\$ 58,303</u>	<u>\$ 112,112</u>

## Notes to the Financial Statements

### 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 Potato 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 1967 Legislature with the intended purpose that the production, development, marketing, and promotion of Irish potatoes in North Dakota is important to the general welfare of the people of North Dakota. This accomplishment required the establishment of the North Dakota Potato Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The Council is composed of one participating grower elected from each of the five districts established in chapter 4.1-10-02 of the North Dakota Century Code (NDCC), and the chairman is elected annually from among the members. An assessment of 3 1/2 cents per hundredweight is imposed on all potatoes grown in the state and sold to a designated handler. All moneys levied and collected by the North Dakota Potato Council are to be deposited in an account designated "Spud Fund" at the State Treasurer and used for carrying out Council objectives.

The Executive Director of the North Dakota Potato Growers Association performs the administrative duties and the record-keeping requirements of the Council under contract. This related party is further explained in Note 2 to the financial statement. The financial statement includes only activities of the Council, which is one department that has one division. The Council is responsible for and is 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 220, the Spud 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**

The Northern Plains Potato Growers Association (NPPGA) located in East Grand Forks, Minnesota, is a related party of the Council. The NPPGA is under contract with the Council to provide promotion, advertising, research, and development of potatoes grown in North Dakota. The amount paid under contract was \$500,000 for fiscal years ended June 30, 2022 and 2021, respectively.

The Executive Director of the Council, who performs all the administrative duties of the Council, is under contract with the Council as an independent contractor, not as a state employee. Under the contract, the Executive Director was paid \$18,000 for fiscal year ended June 20, 2022 and \$16,974 for fiscal year ended June 20, 2021. The Executive Director also performed the administrative duties for the NPPGA and for a region of the Minnesota Potato Council for fiscal year 2021.

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

The Council has cash and investment reserves of \$655,486 and \$554,360 at June 30, 2022 and 2021, respectively. Based on the average monthly expenditures for fiscal years 2022 and 2021, this amount represents approximately 15 and 13 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 Potato Council

Diane Peycke, North Dakota Potato Council Executive Director

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 Potato 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 28, 2022. We issued a qualified opinion on the financial statement due to lack of audit evidence surrounding potato assessments.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered North Dakota Potato 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 Potato Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Potato Council's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Findings, Recommendations, and Management's Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying *Findings, Recommendations, and Management's Responses*, as Finding 2022-02 to be a material weakness.

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. We consider the deficiency described in the accompanying *Findings, Recommendations, and Management's Responses*, as Finding 2022-01 to be a significant deficiency.

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

As part of obtaining reasonable assurance about whether the North Dakota Potato 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Findings, Recommendations, and Management's Responses*, as Finding 2022-02.

## **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 28, 2022

## Findings, Recommendations, and Management's Responses

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

#### Condition

The North Dakota Potato Council only has one contracted employee responsible for accounting functions. Inadequate segregation of duties exists as the one employee is responsible to collect monies, prepare and approve refunds, submit vouchers for payment, approve vouchers for payment, review the vendor check listing, and 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 North Dakota Potato Council's financial statements increases with weakened internal controls and inadequate segregation of duties, whether due to error or fraud.

#### Cause

The North Dakota Potato 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 North Dakota Potato Council implement alternative control activities when possible.
- The Board of Directors remain involved in the financial affairs of the North Dakota Potato Council.

### **North Dakota Potato Council Response/Corrective Action Plan**

The Executive Director acknowledges the recommendation and will segregate any duties to the extent possible to reduce the potential risk of loss, implement alternative control activities when possible and keep the Board of Directors involved in the financial affairs of the Council.

## **Finding 2022-02 – Inadequate Controls Over Reconciling Deposits and Assessment Collection**

### **Condition**

The North Dakota Potato Council is not adequately reconciling deposits to what is entered into PeopleSoft by the State Treasurer. They were unable to provide what individual handler reports comprised 7 out of 13 deposits tested which totaled \$170,637. For these items, there is no audit evidence that the North Dakota Potato Council agreed the handler reports to the deposit. Due to this, we were unable to ensure the proper assessment was being collected by the North Dakota Potato Council.

### **Criteria**

The GAO Standards for Internal Control in the Federal Government section 10.03 states in part: management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

NDCC 4.1-10-10 authorizes the North Dakota Potato Council to assess a rate up to 4 cents per hundredweight upon all potatoes grown in the state or sold to a designated handler. The current assessment is 3.5 cents per hundredweight.

### **Effect**

Without adequate controls over reconciling deposits, the North Dakota Potato Council may not be receiving accurate revenue amounts from its potato assessment function.

### **Cause**

The North Dakota Potato Council is not maintaining a record of the reconciliation between the deposit and the individual handler reports that comprise the total amount of each deposit.

### **Recommendation**

We recommend the North Dakota Potato Council adequately reconcile deposits to ensure it is receiving accurate assessment revenue in accordance with NDCC 4.1-10-10.

### **North Dakota Potato Council Response/Corrective Action Plan**

The Executive Director acknowledges the recommendation and will keep a better record of deposits and handlers report in the future.



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**Governance Communication**

October 28, 2022

North Dakota Potato Council

Legislative Audit and Fiscal Review Committee

We have audited the Comparative Statement of Revenues and Expenditures of the North Dakota Potato Council Fund for the two-year period ended June 30, 2022 and have issued our report thereon dated October 28, 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 22, 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 Potato Council are described in Note 1 to the financial statements. 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 Potato 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. During testing, we noted that \$170,637 of the \$281,658 potato assessment deposits that were sampled, did not have adequate supporting documentation. This resulted in a projected error in the amount of \$722,905 for potato assessment revenue that may not have supporting documentation for fiscal year 2022 and 2021. The possible effect of the lack of support for potato assessment revenue on the financial statement is not known.

### ***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 statements 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 28, 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 Potato 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 Potato 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.

We issued a qualified opinion on the financial statement. We found a lack of audit evidence surrounding \$170,637 of potato assessment revenue we tested. This resulted in a projected error in the amount of \$722,905 for potato assessment revenue that may not have supporting documentation for fiscal years 2022 and 2021.

**Restriction on Use**

This information is intended solely for the use of the North Dakota Potato Council, management of the North Dakota Potato 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,

A handwritten signature in cursive script that reads "Robyn Hoffmann".

Robyn Hoffmann, CPA  
Audit Manager





Office of the  
State Auditor


NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION


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