



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## Industrial Commission

Audit Report for the Three-Year Period Ended June 30, 2023

Client Code 405





## WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two to four years. This included a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

## WHAT WE FOUND

This audit did not identify any areas of concern.

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## HAVE QUESTIONS? ASK US.

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# Introduction

## Industrial Commission

December 14, 2023

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We are pleased to submit this audit of the Industrial Commission for the three-year period ended June 30, 2023. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two to four years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase the responsiveness and effectiveness of state government.

Allison Bader was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to the Industrial Commission's staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

**JOSHUA C. GALLION**  
**NORTH DAKOTA STATE AUDITOR**

## TERMS USED IN REPORT

**Appropriation:** An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

**ConnectND:** The accounting system for North Dakota.

**Emergency Commission:** Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

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

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

**Performance Audit:** Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

**Session Laws:** Published after each regular and special legislative session and contain the laws enacted during that session.



# Audit Results

## ▼ PRIMARY OBJECTIVE

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

## CONCLUSION

No errors, internal control weaknesses, or potential violations of law were identified.

# Audit Procedures

## Primary Objective

### INTERNAL CONTROL

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

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

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Financial Report.
- Tested original appropriations and appropriation adjustment authorizations in the audit of the State of North Dakota Annual Comprehensive Financial Report.
- Transfers may be made between entities within the control of the Industrial Commission for administrative services. Verified the spreadsheet used by the Industrial Commission to allocate total transfer amounts among entities was correct and ensured the allocation didn't exceed the authorized limit. In addition, tested the accuracy of the Industrial Commission's administrative service budget tracking spreadsheet by comparing revenues and expenditures to ConnectND financial data (2019 Session Law, House Bill 1014, Section 8 and 2021 Session Law, Senate Bill 2014, Section 7).
- Tested legislatively restricted fund expenditures for proper approvals by appropriate individuals.

There were no deficiencies identified.

### SCOPE

This audit of the Industrial Commission is for the three-year period ended June 30, 2023.

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

- Department of Mineral Resources (Geological Survey and Oil and Gas Division)
- Pipeline Authority
- Clean Sustainable Energy Authority (Non-Loan Activity)
- Lignite Research, Development, and Marketing Program
- Natural Gas Pipeline Program
- Oil and Gas Research Program
- Outdoor Heritage Fund
- Renewable Energy Program
- Transmission Authority

The following entities and programs are under the direction and control of the Commission; however, they are independently audited and, therefore, are not within the scope of this audit.

- Bank of North Dakota
- Building Authority
- Housing Finance Agency
- Mill and Elevator
- Public Finance Authority
- Student Loan Trust
- Clean Sustainable Energy Authority (Loan Activity)

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

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

## METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population where appropriate. Where applicable, populations were stratified for efficiency and to ensure the population was adequately represented in the samples.
- Interviewed appropriate agency personnel.
- Inspected documentary evidence.
- Reviewed applicable Industrial Commission rules, regulations, and administrative code.
- Queried the ConnectND (PeopleSoft) system and performed detailed analytical procedures. These procedures were used to identify high-risk transactions for additional testing. Significant evidence was obtained from ConnectND.
- Analyzed and tested significant, random, and stratified expenditures to determine the Industrial Commission did not expend more than appropriated (N.D.C.C. 54-16-03).
  - 2019 Session Laws House Bill 1014 Section 1, Subdivision 1.
  - 2021 Session Laws Senate Bill 2014 Section 1, Subdivision 1.
  - 2023 Session Laws House Bill 1014 Section 1, Subdivision 1 (Emergency Measures).
- Analyzed accounts charged to each appropriation class to determine that expenditures were not charged to an inappropriate class to circumvent appropriation spending (N.D.C.C. 54-16-03).
- Reviewed funds with non-appropriated fund activity to ensure the Industrial Commission had legislative approval for non-appropriated expenditures (N.D.C.C. 54-44.1-09).
  - Industrial Commission Fund (N.D.C.C. 38-08-04.11, N.D.C.C. 54-17.4-10, and N.D.C.C. 54-17.4-12).
  - Renewable Energy Development Fund (N.D.C.C. 54-63-04).
  - Lignite Research Fund (N.D.C.C. 57-61-01.6).
  - Conference Fund (OMB Policy 211).
  - Abandoned Oil and Gas Reclamation Fund (N.D.C.C. 38-08-04.5).
  - Oil and Gas Research Fund (N.D.C.C. 57-51-07.3).
  - Oil and Gas Reservoir Data Fund (N.D.C.C. 38-08-04.6).
  - Geo Data Preservation Fund (N.D.C.C. 54-17.4-13).
  - Geo, Mineral Coal Exploration Fund (N.D.C.C. 38-21-02/03).
  - Fossil Excavation and Restoration Fund (N.D.C.C. 54-17.4-09.1).
  - ND Outdoor Heritage Fund (N.D.C.C. 54-17.8-02 and N.D.C.C. 54-17.8-03).
  - Pipeline Authority Admin Fund (N.D.C.C. 54-17.7-11).
  - Energy Research Center Grant Fund (N.D.C.C. 57-51.1-07.9).
  - Carbon Dioxide Facility Admin Fund (N.D.C.C. 38-22-14).
  - High Level Radio Waste Fund (N.D.C.C. 38-23-07).
  - Clean Sustainable Energy Fund (N.D.C.C. 54-63.1-07).
- Tested random and significant expenditures to determine compliance with the documented intent of appropriation adjustments, including specific Session Laws with related emergency measure sections and authorized Emergency Commission requests (N.D.C.C. 54-16-03, N.D.C.C. 54-10-01.1, 2019, 2021, and 2023 (Emergency Measures) Session Laws)).
- Analyzed and tested random and high-risk sample of expenditures related to legally restricted funds to ensure charges were in accordance with fund restrictions, accurately recorded in the State's accounting system related to appropriation class, fund, and account, and for a lawful and official purpose (fiscal years 2021, 2022).



- Renewable Energy Development Fund (N.D.C.C. 54-63-04).
  - Lignite Research Fund (N.D.C.C. 57-61-01.6).
  - Abandoned Oil and Gas Reclamation Fund (N.D.C.C. 38-08-04.5).
  - Oil and Gas Research Fund (N.D.C.C. 57-51-07.3).
  - Oil and Gas Reservoir Data Fund (N.D.C.C. 38-08-04.6).
  - ND Outdoor Heritage Fund (N.D.C.C. 54-17.8-02 and N.D.C.C. 54-17.8-03).
  - Pipeline Authority Admin Fund (N.D.C.C. 54-17.7-11).
  - Clean Sustainable Energy Fund (N.D.C.C. 54-63.1-07).
- Analyzed and selected a high-risk and random sample of expenditures, including travel, purchase card, and legally restricted funds (fiscal year 2023) expenditures, to test accurate recording of payments in the State's accounting system related to appropriation class, funds, and account, and reasonableness of purchase (N.D.C.C. 54-44.1-09, N.D.C.C. 44-08-05).
  - Analyzed Fines and Forfeitures activity, which predominately consisted of bond revenue, and inspected surety bond forfeiture of \$3 million as the cause for the significant increase in the account balance from prior years. Additionally, determined the bond amounts were reasonable based on the applicable administrative code (N.D.A.C. 43-02-03-15).
  - Analyzed temporary employee payroll payments to determine \$55,096 of the \$175,000 in general funds was used for temporary employees' salaries and benefits (2019 Session Law, House Bill 1014, Section 2).
  - Analyzed expenditures and transfers to ensure no more than \$1,172,603 was received from the entities within the control of the Industrial Commission or entities directed to make payments to the Industrial Commission Fund for administrative services rendered. Specifically, it was determined the Industrial Commission transferred \$901,374 of the available \$1,172,603 from entities within the control of the agency (2019 Session Law, House Bill 1014, Section 8).
  - Analyzed expenditures and inspected contracts for the purpose outlined by session law to determine \$270,000 from the Strategic Investment and Improvement Fund was used for a rare earth element study (\$160,000) and a fracturing sand study (\$110,000) (2019 Session Law, House Bill 1014, Sections 2 and 17).
  - Analyzed and tested significant expenditures, reviewed procurement documents, and inspected the applicable contract to determine \$4,925,829 of the \$5,000,000 from the abandoned oil and gas well plugging and site reclamation fund was used for a risk-based data management system information technology project (2019 Session Law, House Bill 1014, Sections 2 and 18).
  - Inspected the applicable contract and analyzed expenditures to determine \$298,229 of the \$300,000 from the oil and gas research fund was used for the recycling produced water study (2019 Session Law, House Bill 1014, Section 19).
  - Analyzed and tested expenditures and inspected the applicable contract to ensure no more than \$6 million from the oil and gas research fund was used to contract with the Energy and Environment Research Center for pilot projects relating to the underground storage of produced natural gas. Per review of the applicable contract, the contract period for this project was June 1, 2019 – June 30, 2023. At the completion of the contract period, the Commission had spent \$3,076,600 of this funding (2019 Session Law, House Bill 1014, Section 25(2)).
  - Analyzed and performed random and significant expenditures testing of the lignite research fund to determine \$313,483 of the \$4.5 million was spent for funding unmatched projects, processes, or activities under the lignite research, development, and marketing program during the 2019-2021 biennium (2019 Session Law, House Bill 1014, Sections 28).

- Analyzed expenditures and transfers to ensure no more than the authorized amount of \$1,214,768 was received from the entities within the control of the Industrial Commission or entities directed to make payments to the Industrial Commission Fund for administrative services rendered. Specifically, it was determined the Industrial Commission transferred \$598,258 of the available \$1,214,768 from entities within the control of the agency (2021 Session Law, Senate Bill 2014, Section 7).
- Analyzed and performed random and high-risk transaction testing of lignite research fund expenditures to determine \$1,415,874 of the \$4.5 million was spent for funding unmatched projects, processes, or activities under the lignite research, development, and marketing program during the 2021-2023 biennium (2021 Session Law, Senate Bill 2014, Section 13).
- Determined an additional \$2.5 million was added to the original \$9.5 million funding for this project for a total of \$12 million available from the oil and gas research fund to be used to contract with the Energy and Environmental Research Center to complete an underground energy storage study. Expenditures were analyzed and tested to determine the Commission spent \$9,614,161 on this study during the biennium (2021 Session Law, Senate Bill 2014, Section 14).
- Analyzed and tested expenditures to ensure no more than \$500,000 from the oil and gas research fund was used to contract with the Energy and Environmental Research Center to complete a study on the development and implementation of hydrogen energy in the State. During the biennium, the Commission spent \$332,538 on this study (2021 Session Law, Senate Bill 2014, Section 15).
- Analyzed and tested significant Clean Sustainable Energy Fund expenditures to determine \$10,898,844 was used for grants to support research, development, and technological advancements for the large-scale development and commercialization of projects, processes, activities, and technologies that reduce environmental impacts and increase sustainability of

energy production and delivery. In addition, reviewed documentation to ensure grants were recommended by the Clean Sustainable Energy Authority, verified technical reviews of grantees were conducted to demonstrate project feasibility, and confirmed grantees had other source of financial support (2021 Session Law, House Bill 1452, Section 3).

- Analyzed and tested expenditures to ensure no more than \$20 million of Federal funds from the state fiscal recovery fund was used for providing hydrogen development grants. During the biennium, the Commission spent \$4,763,929 of this funding. Additionally, reviewed documentation to ensure the hydrogen development grants were approved by the Clean Sustainable Energy Authority (2021 Special Session Law, Senate Bill 2345, Section 1(36)).

#### **AUTHORITY AND STANDARDS**

This audit of the Industrial Commission has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are published in the publication Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14- 704G).

# Financials

## Revenues and Expenditures

REVENUE AND OTHER SOURCES	JUNE 30, 2023	JUNE 30, 2022	JUNE 30, 2021
Federal Revenue	\$ 3,250,058	\$ 158,514	\$ 110,387
Fines and Forfeitures	2,815,944	1,996,678	5,152,947
Interest and Investment Earnings	1,362,288	85,752	98,835
Permits and Fees	423,954	418,994	222,743
Charges for Sales and Services	233,153	201,353	240,622
Miscellaneous Revenue	158,638	308,235	88,163
Refunds	85,186	473	143,569
Transfers-In	23,644,637	94,580,602	85,905,389
<b>Total Revenue and Other Sources</b>	<b>\$ 31,973,858</b>	<b>\$ 97,750,601</b>	<b>\$ 91,962,655</b>

Source: ConnectND Financials

Continued on the following page

# Financials

## Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2023	JUNE 30, 2022	JUNE 30, 2021
Grants	\$ 35,349,173	\$ 25,405,813	\$ 35,264,503
Salaries and Benefits	11,444,534	10,679,920	11,033,068
Contract Services	6,099,137	12,268,161	74,451,455
Travel	849,047	632,694	526,869
Rentals/Leases - Buildings	393,833	1,015,090	371,342
Professional Fees and Services	389,142	867,911	1,465,246
Operating Fees and Services	355,177	302,988	414,341
IT Communications and Data Processing	332,789	354,817	265,544
Equipment	138,368	67,730	41,868
IT Equipment and Software	81,948	59,975	2,241,916
Professional Development	62,562	92,946	81,558
Transfers-Out	926,704	25,011,249	42,451
<b>Total Expenditures and Other Uses*</b>	<b>\$ 56,422,414</b>	<b>\$ 76,759,294</b>	<b>\$ 126,200,161</b>

Source: ConnectND Financials

*\*The Industrial Commission had a total of \$71,013,107 of non-appropriated expenditures during the 2021 - 2023 biennium and a total of \$77,890,007 of non-appropriated expenditures during the 2019 -2021 biennium.*

# Appropriations

For the Biennium Ended June 30, 2023

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
<b>Expenditures by Line Item</b>			
Salaries and Wages <sup>2</sup>	\$ 23,747,182	\$ 22,256,046	\$ 1,491,136
Operating Expenses <sup>2</sup>	5,574,631	4,419,711	1,154,920
Capital Assets	100,660	96,891	3,769
Technology Project Carryover	74,171	74,171	-
Pipeline Infrastructure Grant	150,000,000	-	150,000,000
Abandoned Oil Well Conv. Grant	3,200,000	162	3,199,838
Hydrogen Development Grant	20,000,000	4,763,929	15,236,071
IJA Funding	2,500,000	118,339	2,381,661
General Fund Transfers	25,077,459	25,015,001	62,458
Bond Payments <sup>1</sup>	22,040,721	21,973,743	66,978
CARES Act Funding - 2020	5,935,352	5,935,352	-
<b>Totals</b>	<b>\$ 258,250,176</b>	<b>\$ 84,653,345</b>	<b>\$ 173,596,831</b>
<b>Expenditures by Source</b>			
General	\$ 51,727,928	\$ 49,952,639	\$ 1,775,289
Other	206,522,248	34,700,706	171,821,542
<b>Totals</b>	<b>\$ 258,250,176</b>	<b>\$ 84,653,345</b>	<b>\$ 173,596,831</b>

Source: ConnectND Financials

<sup>1</sup> The Industrial Commission appropriation includes Building Authority. The above appropriation statement includes expenditures of \$21,973,743 from the Building Authority which were not included in the scope of the audit.

<sup>2</sup> Industrial Commission appropriation includes Public Finance Authority. The above appropriation statement includes expenditures of \$511,000 for Public Finance Authority obtained from the Statement of Appropriations in the Authority's audited financial statements. Public Finance Authority was not included in the scope of the audit.

# Appropriations

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
<b>Expenditures by Line Item</b>			
Salaries and Wages <sup>1,2</sup>	\$ 23,584,450	\$ 22,107,504	\$ 1,476,946
Operating Expenses <sup>2</sup>	8,303,798	6,008,130	2,295,668
Capital Assets	5,000,000	4,925,829	74,171
Contingencies	229,544	-	229,544
Bond Payments <sup>1</sup>	10,508,767	10,508,767	-
CARES Act Funding - 2020	71,475,000	53,754,481	17,720,519
High-Level Radioactive TSFR	20,000	20,000	-
<b>Totals</b>	<b>\$ 119,121,559</b>	<b>\$ 97,324,711</b>	<b>\$ 21,796,848</b>
<b>Expenditures by Source</b>			
General	\$ 27,449,198	\$ 24,382,299	\$ 3,066,899
Other	91,672,361	72,942,412	18,729,949
<b>Totals</b>	<b>\$ 119,121,559</b>	<b>\$ 97,324,711</b>	<b>\$ 21,796,848</b>

Source: ConnectND Financials

<sup>1</sup> The Industrial Commission appropriation includes Building Authority. The above appropriation statements include expenditures of \$10,511,072 from the Building Authority which was not included in the scope of the audit.

<sup>2</sup> Industrial Commission appropriation includes Public Finance Authority. The above appropriation statement includes expenditures of \$572,000 for Public Finance Authority obtained from the Statement of Appropriations in the Authority's audited financial statements. Public Finance Authority was not included in the scope of the audit.



Office of the  
State Auditor


NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION


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