

Department of Agriculture
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

August 29, 2014

The Honorable Jack Dalrymple, Governor

Members of the North Dakota Legislative Assembly

The Honorable Doug Goehring, Commissioner, Department of Agriculture

We are pleased to submit this audit of the North Dakota Department of Agriculture for the biennium ended June 30, 2013. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Lindsey Ressler. Elizabeth Rogers was the staff auditor. Paul Welk, CPA, 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 Commissioner Goehring and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script, reading "Rob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Agriculture was originally established as the Commissioner of Agriculture and Labor by the North Dakota Constitution in 1889. In 1964, voters approved dividing the office into two separate offices – Commissioner of Labor and Commissioner of Agriculture.

The responsibilities of the Department of Agriculture include: a leadership role in the formulation of policies affecting the state's agricultural industries; the advocacy of the needs and concerns of farmers and ranchers in the state and national level; the administration of fair and timely mediation services to farmers and ranchers; the promotion and marketing of North Dakota products; and the dissemination of information concerning agricultural issues to the Governor, Legislature, and the general public.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

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

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

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our finding addressing "Failure to Comply with NDCC for Timeliness of Anhydrous Ammonia Inspections" (Page 12), the Department of Agriculture was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Yes.

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

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no recommendations included in the prior audit report.

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

Yes, a management letter was issued and is included on pages 14-15 of this report, along with management's response.

LAFRC Audit Communications

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

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Agriculture's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

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

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

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

This is not applicable for audits conducted by the Office of the State Auditor.

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

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Department of Agriculture.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Department of Agriculture for the biennium period ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Agriculture's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Agriculture and are they in compliance with these laws?
3. Are there areas of the Department of Agriculture's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Department of Agriculture is for the biennium ended June 30, 2013. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Agriculture has operations in the following locations. Each location was included in the audit scope:

- The Central Office in the State Capitol.
- Meat Inspection in north Bismarck.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately

represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Agriculture's processes and procedures.
- Performed a detailed review of the Meat and Poultry Inspection Program and Anhydrous Ammonia Inspection Program operated by the Department of Agriculture including:
 - Established policies and procedures;
 - Qualifications of staff;
 - Licensing;
 - Inspections;
 - Complaint handling;
 - Enforcement processes; and
 - Management analysis processes.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Management's Discussion and Analysis

The accompanying financial statements have been prepared to present the Department of Agriculture's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Department of Agriculture's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2013, operations of the Department of Agriculture were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of federal funds from a variety of federal grants and other revenues derived mainly from licenses, registrations, interagency transfers, and user fees. Total revenues were \$5,156,082 for the year ended June 30, 2013 as compared to \$9,649,607 for the year ended June 30, 2012. This decrease is due to pesticide registrations and commercial feed registrations on a two-year cycle with registrations due the first year of the biennium.

Total expenditures for the Department of Agriculture were \$10,301,633 for the year ended June 30, 2013 as compared to \$9,718,884 for the prior year. The increase in total expenditures for the audited period reflects primarily IT equipment and Livestock Pollution Prevention Program (LP3). The IT expenditures were to increase efficiencies and decrease desktop support demand. The LP3 expenditures are based on completion schedule for eligible projects. All other expenditures remained fairly constant.

The increase in expenditures for salaries and benefits reflected the general salary increases.

Analysis of Significant Changes in Operations

The Department of Agriculture implemented a number of significant changes during the 2011-2013 biennium.

The Department received more than \$235,000 of federal grants to provide cost-share assistance for organic producer and handler certifications. The program reimbursed qualified individuals and entities up to \$750 of their annual certification costs.

The North Dakota Legislative Assembly transferred the anhydrous ammonia inspection program from the Insurance Department to the Department of Agriculture as of January 1, 2012. The transfer included two FTEs and supporting funding from the Environment and Rangeland Protection Fund.

The Department was appropriated \$75,000 from the general fund for research grants focusing on honeybee colony healthy. The Department granted funds to research entities.

The Department was also appropriated \$200,000 from the general fund for the testing and control of John's Disease.

The Department received federal grants to enhance the competitiveness of specialty crops. Specialty crops now grown commercially in North Dakota include dry beans, dry peas, lentils, potatoes, grapes, honey, and various vegetables. Over \$850,000 was distributed to enhance research, promotion, marketing, trade enhancement, education, and product development.

Analysis of Significant Variances Between Final Budgeted and Actual Expenditures

The Department of Agriculture had excess appropriations over actual expenditures in the Salaries and Benefits and Operating Expenses line items. The Salary line item variance (\$9,712,364 appropriated compared to \$8,607,322 actual expenditures) is due to maximizing usage of temporary salary dollars in the ND Mediation Services, noxious weeds, and livestock development programs to complete primary duties when evaluating the job responsibilities prior to hiring FTE's within these programs. The Operating line item variance (\$6,451,453 appropriated compared to \$4,722,881 actual expenditures) is due to over-estimated federal revenue.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Revenue from Federal Government	\$2,307,917	\$2,173,398
Licenses, Fees, and Registrations	1,518,048	5,562,867
Conference Registration Fees	196,296	183,763
Inspection Fees	84,997	52,411
Fines	25,575	35,840
Turkey Assessments	16,185	20,071
Miscellaneous Revenue	22,781	157,996
Transfers In	984,283	1,463,261
Total Revenues and Other Sources	<u>\$5,156,082</u>	<u>\$9,649,607</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$4,946,103	\$4,869,481
Grants	1,344,515	1,493,671
Purchase of Service Agreements	880,826	824,124
Travel	567,211	575,683
IT - Data Processing/Equipment/Services	496,842	292,925
Livestock Pollution Prevention Payments	481,590	259,541
Hazardous Waste Collection	311,123	214,020
Contractual Fees	279,585	141,392
Radio/TV/Newspaper	175,325	129,757
Rentals/Leases- Buildings/Land	156,532	142,447
Fees - Professional Services	151,577	188,566
Professional Development	100,122	74,566
Operating Fees	55,904	69,076
Miscellaneous Expenditures	335,928	210,845
Transfers Out	18,450	232,790
Total Expenditures and Other Uses	<u>\$10,301,633</u>	<u>\$9,718,884</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 9,712,364		\$ 9,712,364	\$ 8,607,322	\$ 1,105,042
Operating Expenses	6,451,453		6,451,453	4,722,881	1,728,572
Capital Assets	17,000		17,000	16,855	145
Grants	3,170,828	\$ 36,000	3,206,828	2,711,936	494,892
Board of Animal Health	2,153,952	64,609	2,218,561	1,930,377	288,185
Wildlife Services	1,417,400		1,417,400	1,417,400	
Crop Harmonization Board	75,000		75,000	69,846	5,154
Totals	<u>\$ 22,997,997</u>	<u>\$ 100,609</u>	<u>\$ 23,098,606</u>	<u>\$ 19,476,617</u>	<u>\$ 3,621,989</u>
Expenditures by Source:					
General Fund	\$ 8,196,746	\$ 64,609	\$ 8,261,355	\$ 8,216,166	\$ 45,189
Other Funds	14,801,251	36,000	14,837,251	11,260,451	3,576,800
Totals	<u>\$ 5,118,497</u>	<u>\$ 100,609</u>	<u>\$ 23,098,606</u>	<u>\$ 19,476,617</u>	<u>\$ 3,621,989</u>

Appropriation Adjustments:

The \$36,000 increase to the Grants line item was approved by the Emergency Commission for a distribution to recipients under a stipulation agreement executed with a livestock dealer.

The \$64,609 increase to the Board of Animal Health line item was a carryover of funds approved by the carryover committee.

Expenditures Without Appropriations Of Specific Amounts:

Turkey Promotion Fund has a continuing appropriation authorized by NDCC 4-13.1-05 (\$38,900 of expenditures for this biennium).

Honey Promotion Fund has a continuing appropriation authorized by NDCC 4-12.1-03 (\$64,040 of expenditures for this biennium).

Minor Use Pesticide Fund has a continuing appropriation authorized by NDCC 4-35-06.3 (\$189,720 of expenditures for this biennium).

A transfer from the Environment and Rangeland Protection Fund to the Minor Use Pesticide Fund was authorized by Senate Bill 2009, Section 5 of the 2011 Session (\$200,000 transfer).

A transfer to the NDSU Fund from the General Fund was authorized by NDCC 4-35-23 (\$51,240 transfer).

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the Department of Agriculture's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the Department of Agriculture in a management letter dated August 29, 2014.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested the Department of Agriculture's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriation laws (2011 Session Laws):
 - Limited use of funds from the Environment and Rangeland Protection Fund to \$5,103,037 (Senate Bill 2009, section 4).
 - Proper transfer of \$200,000 from the Environment Rangeland Protection Fund to the Minor Use Pesticide Fund (Senate Bill 2009, section 5).
 - Developed a Crop Insurance Development Board (Senate Bill 2222, section 1).
 - Proper Monitoring of Equine Slaughter (House Bill 1244, section 1).
- Compliance with anhydrous ammonia inspection timelines in NDCC 44-04-07.
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws, chapter 35).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and annual inventory requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions.
- Proper authorization of funds.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than that finding, we concluded there was compliance with the legislative intent identified above.

Failure to Comply with NDCC for Timeliness of Anhydrous Ammonia Inspections (Finding 13-1)

Condition:

The Department of Agriculture used an insufficient method to track and monitor anhydrous ammonia inspections performed. As a result, they did not conduct inspections on anhydrous ammonia facilities a minimum of one time every five years as required by North Dakota Century Code. We noted that 3 of the 96 required inspections during calendar year 2013 were not performed.

Criteria:

North Dakota Century Code section 19-20.2-07 states that each anhydrous ammonia storage facility shall be inspected at least once every five years.

Cause:

The Department of Agriculture is not adequately monitoring or tracking anhydrous ammonia inspections to ensure they are performed within the timeframe set by North Dakota Century Code.

Effect or Potential Effect:

Lack of timely inspections of anhydrous ammonia facilities could cause the general public to be exposed to a hazardous chemical.

Operational Improvement:

We recommend the Department of Agriculture properly monitor and track anhydrous ammonia inspections to ensure they are performed within the five year timeframe set by North Dakota Century Code section 19-20.2-07.

Department of Agriculture Response:

The Department agrees with the recommendation. In response, the Department developed a database to schedule facilities for inspection and track inspections. This will ensure that all facilities are inspected within the mandated five-year frequency. Inspections of the three facilities missed in 2013 were conducted immediately upon learning of the oversight.

Operations

This audit did not identify areas of the Department of Agriculture's operations where we determined it was practical at this time to help to improve efficiency or effectiveness. However, we noted certain matters involving operations that we have reported to management of the Department of Agriculture in a management letter dated August 29, 2014.

Management Letter (Informal Recommendations)

August 29, 2014

The Honorable Doug Goehring
Agriculture Commissioner
Department of Agriculture
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner Goehring:

We have performed an audit of the Department of Agriculture for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Agriculture's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

LEGISLATIVE INTENT

Informal Recommendation 13-1: We recommend the Department of Agriculture take an annual inventory of their fixed assets in accordance with NDCC section 44-04-07.

OPERATIONAL IMPROVEMENTS

Informal Recommendation 13-2: We recommend the State Meat and Poultry Inspection Program implement procedures surrounding the consumer complaint process to include:

- Providing information regarding the complaint filing process on the program's website;
- Developing documented procedures on complaint handling; and
- Consistently updating documentation in their compliance spreadsheet.

Informal Recommendation 13-3: We recommend the State Meat and Poultry Inspection Program develop documented procedures surrounding custom exempt establishments to include: necessary information to be provided to new establishments and timeliness for issuance of certificates and renewals.

Informal Recommendation 13-4: We recommend the Anhydrous Ammonia Program implement procedures surrounding the consumer complaint process to include:

- Providing information regarding the complaint filing process on the program's website; and
- Developing policies for appropriately handling complaints.

Informal Recommendation 13-5: We recommend the State Meat and Poultry Inspection Program and Anhydrous Ammonia Program ensure each inspector sign an annual ethics and conflict of interest statement.

Management of Department of Agriculture agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Lindsey Ressler
Auditor in-charge

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Division of State Audit

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