

NORTH DAKOTA
MILK MARKETING BOARD
BISMARCK, NORTH DAKOTA

Audit Report

For the Two Year Period Ended
June 30, 2012

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Milk Marketing Board

John E. Weisgerber, Jr., Director, North Dakota Milk Marketing Board

We have audited the special-purpose statements of revenues and expenditures of the North Dakota Milk Marketing Board for the two-year period ended June 30, 2012. These special-purpose financial statements are the responsibility of the management of the North Dakota Milk Marketing Board. Our responsibility is to express an opinion on the special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As discussed in Note 1, these special-purpose financial statements are intended to present the revenues and expenditures of only that portion of the governmental activities of the state of North Dakota that is attributable to the transactions of the North Dakota Milk Marketing Board. They do not purport to, and do not, present fairly the financial position of the state of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

The accompanying special-purpose financial statements are prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Milk Marketing Board's operations in accordance with NDCC section 4-24-10. The revenues and expenditures are reported as discussed in the first note to the special-purpose financial statements. These special-purpose financial statements are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statements referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Milk Marketing Board for the two-year period ended June 30, 2012, in conformity with the basis of accounting described in Note 1 to the special-purpose financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2012, on our consideration of the North Dakota Milk Marketing Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, the Senate and House agriculture committees, and management of the North Dakota Milk Marketing Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

October 16, 2012

***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***

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Milk Marketing Board

John E. Weisgerber, Jr., Director, North Dakota Milk Marketing Board

We have audited the special-purpose financial statement of revenues and expenditures of the North Dakota Milk Marketing Board for the two-year period ended June 30, 2012 and have issued our report thereon dated October 16, 2012. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and is not intended to be a presentation in conformity with generally accepted accounting principles. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the North Dakota Milk Marketing Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Milk Marketing Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Milk Marketing Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Milk Marketing Board's internal control over financial reporting.

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 North Dakota Milk Marketing Board's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Milk Marketing Board's special-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of special-purpose financial statement amounts. 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*.

This report is intended solely for the information and use of the North Dakota Milk Marketing Board, Legislative Audit and Fiscal Review Committee, and members of the North Dakota Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.



Robert R. Peterson
State Auditor

October 16, 2012

Comparative Statement of Revenues and Expenditures *(Budgetary Basis)*

North Dakota Milk Marketing Board

For the Fiscal Years Ended June 30, 2012 and 2011

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Revenues</u>		
Milk Volume Assessments	\$ 256,210	\$ 236,313
Interest on Investments	1,252	1,807
Total Revenues	<u>\$ 257,462</u>	<u>\$ 238,120</u>
<u>Expenditures</u>		
Salaries and Benefits	\$ 249,101	\$ 232,807
Travel	10,984	10,069
Rent of Building Space	6,818	6,818
Audit and Legal Fees	5,433	10,305
Telephone	1,636	1,655
Postage	1,444	1,450
Professional Development	1,032	1,678
Insurance	675	1,075
Periodicals and Subscriptions	618	338
Office Supplies	289	396
Repairs	265	317
Equipment	284	
Printing	145	295
Data Processing	122	162
Donated Surplus Property	5	
Service Awards		600
Total Expenditures	<u>\$ 278,851</u>	<u>\$ 267,965</u>
Revenues Over/(Under) Expenditures	<u>\$ (21,389)</u>	<u>\$ (29,845)</u>

Notes to the Special-Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility of these special-purpose financial statements, the internal control structure and compliance with laws and regulations belongs to the management of the North Dakota Milk Marketing Board. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Milk Marketing Board has included all funds, programs, and activities over which it is financially accountable. The North Dakota Milk Marketing Board does not have any component units as defined by the Governmental Accounting Standards Board. The North Dakota Milk Marketing Board is part of the state of North Dakota as a reporting entity. The financial statements report all expenditure activity in the administration program.

The North Dakota Milk Marketing Board was established by North Dakota Century Code (NDCC) chapter 4-18.1, and is responsible for supervising, investigating, and regulating every segment of the state's dairy industry. The North Dakota Milk Marketing Board may act as mediator or arbitrator to settle any controversy or issue among or between dairy farmers, processors, distributors, retailers, or consumers if the controversy or issue pertains to the production, transportation, processing, storage, distribution or sale of milk products or frozen dairy products. The Milk Marketing Board receives its funding through an assessment levied upon all licensed processors of not more than fourteen cents per hundredweight on all milk products or frozen dairy products sold in the state of North Dakota. The Milk Marketing Board operates on a continuing appropriation and received no funding from the State Legislature.

B. Reporting Structure

The special-purpose financial statements include all activities of the reporting entity as defined above. These activities are funded from the Milk Marketing Board's milk marketing fund. The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the statement of revenues and expenditures are principally reported on the modified accrual basis of accounting, which is generally accepted accounting principles (GAAP) for governmental fund types. Because of the unique nature of North Dakota's accounting system and its appropriation laws, there are at times differences between the way expenditures are appropriated and GAAP. These differences are discussed below.

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 one 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; compensated absences which are recorded when paid; and, claims and judgments.

As stated previously, there can be differences between revenues and expenditures reported on the state's accounting system and budget basis and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Basically there are two types of differences: accounting and statutory.

Accounting differences can include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- C. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

Statutory differences can occur because of North Dakota Century Code section 54-44.1-11. This section requires the Office of Management and Budget to cancel most unexpended appropriations 30 days after the end of each biennial period. Certain GAAP expenditures are not recorded as budgetary expenditures because the agency does not have the ability to pay the expenditures within 30 days after the end of the biennium. These are relatively rare occurrences, and when significant, will be clearly disclosed.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues, expenditures, and expenses would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures. This type of information is available in the state's comprehensive annual financial report and the Office of Management and Budget's combining statements by department.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the North Dakota Milk Marketing Board's operations. All revenues and expenditures are included regardless of the nature of the activities (proprietary fund types are included with governmental fund types when applicable).

NOTE 2 – OTHER SIGNIFICANT ITEMS

The North Dakota Milk Marketing Board has cash and investment reserves of \$173,647. Based on the average monthly expenditures for fiscal year 2012, this amount represents approximately 7 1/2 months of expenditures.

North Dakota Century Code section 4-18.1-12 states the North Dakota Milk Marketing Board shall levy an assessment upon all licensed processors of not more than fourteen cents per hundredweight. Effective July 1, 2011, the North Dakota Milk Marketing Board approved increasing the assessment to \$.14 per hundredweight.

Supplementary Information

Responses to LAFRC Audit Questions

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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

Unqualified.

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

Yes.

- 3. Was internal control adequate and functioning effectively?*

Yes.

- 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?*

Yes.

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

No.

LAFRC Audit Communications

1. *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.

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

There were no significant accounting estimates.

3. *Identify any significant audit adjustments.*

None.

4. *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.*

We are pleased to report that no significant disagreements arose during the course of our audit.

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

None.

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

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

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

None.

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

ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the North Dakota Milk Marketing Board.

Governance Communication

October 16, 2012

To: North Dakota Milk Marketing Board
Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the governmental activities of the North Dakota Milk Marketing Board for the two-year period ended June 30, 2012, and have issued our report thereon dated October 16, 2012. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by North Dakota Milk Marketing Board 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 period under audit. We noted no transactions entered into by the governmental unit during the audit period for which there is a lack of authoritative guidance or consensus. There is one significant transaction that has been recognized in the special-purpose financial statements in a different period than when the transaction occurred.

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. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 16, 2012.

Management Consultations with Other Independent Accountants

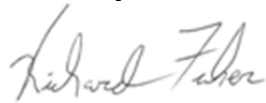
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, 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 two-year period prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the North Dakota Milk Marketing Board.

This information is intended solely for the use of the North Dakota Milk Marketing Board and management of the North Dakota Milk Marketing Board and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Richard Fuher, CPA
Auditor in-charge

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Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241