

NORTH DAKOTA  
POTATO COUNCIL  
GRAND FORKS, NORTH DAKOTA

# **Audit Report**

For the Two-Year Period Ending  
June 30, 2014

Office of the State Auditor  
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Representative Gary Kreidt – Chairman  
Senator Ralph Kilzer – Vice Chairman***

Representatives

*Wesley R. Belter  
Jeff Delzer  
Ron Guggisberg  
Patrick Hatlestad  
Jerry Kelsh  
Scot Kelsh  
Keith Kempenich  
Andrew G. Maragos  
Bob Martinson  
Corey Mock  
Chet Pollert  
Dan Ruby  
Robert J. Skarphol  
Wayne Trottier*

Senators

*Judy Lee  
David O'Connell  
Terry M. Wanzek*

# *Contents*

---

<i>Independent Auditor's Report</i>	<i>1</i>
<i>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards</i>	<i>3</i>
<i>Financial Statements</i>	<i>5</i>
<i>Comparative Statement of Revenues and Expenditures (Budgetary Basis)</i>	<i>5</i>
<i>Notes to the Financial Statements</i>	<i>6</i>
<i>Supplementary Information</i>	<i>8</i>
<i>Responses to LAFRC Audit Questions</i>	<i>8</i>
<i>LAFRC Audit Communications</i>	<i>9</i>
<i>Findings, Recommendations, and Management's Response</i>	<i>10</i>
<i>Governance Communication</i>	<i>11</i>



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## *Independent Auditor's Report*

---

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Potato Council

Diane Peycke, Executive Director

We have audited the accompanying Comparative Statement of Revenues and Expenditures of the North Dakota Potato Council Fund of the state of North Dakota, for the years ended June 30, 2014, and 2013 and the related notes (the financial statement) as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statement referred to above present fairly, in all material respects, the revenues and expenditures of the North Dakota Potato Council Fund, for the years ended June 30, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statement presents only the North Dakota Potato Council Fund's revenues and expenditures, and do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2014 or 2013, the changes in its financial position, or, where applicable, its cash flows 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 4-24-10. 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 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, 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 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.



Robert R. Peterson  
State Auditor

Fargo North Dakota

November 18, 2014



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards*

---

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Potato Council

Diane Peycke, 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 financial statement of the North Dakota Potato Council, for the two-year period ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated November 18, 2014.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Potato Council's internal control over financial reporting (internal control) to determine the 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 North Dakota Potato Council's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Potato Council's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of Findings, Recommendations, and Management's Response that we consider to be a significant deficiency in internal control over financial reporting (Recommendation 14-1).

### **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 determination of 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.

We noted certain matters that we reported to management of the North Dakota Potato Council in a letter dated November 18, 2014.

### **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.



Robert R. Peterson  
State Auditor

Fargo, North Dakota

November 18, 2014

## *Financial Statements*

---

### **Comparative Statement of Revenues and Expenditures**

<u>Revenues:</u>	<u>FY14</u>	<u>FY 13</u>
Potato Assessments (net of refunds of \$12,524 and \$12,735 )	\$ 420,349	\$ 545,792
Cash/Investment Earnings	1,230	1,309
Total Revenues	<u>\$ 421,579</u>	<u>\$ 547,101</u>
<u>Expenditures:</u>		
Salaries - Permanent	-	\$ 100
Travel	\$ 1,095	1,618
Postage	397	360
Printing	138	-
Insurance	1,882	500
IT - Communications	866	1,195
Operating Fees and Services	565,106	541,480
Professional Fees and Services	80	5,345
Total Expenditures	<u>\$ 569,564</u>	<u>\$ 550,598</u>
Revenues Over (Under) Expenditures	<u>\$ (147,985)</u>	<u>\$ (3,497)</u>

*See Notes to the Comparative Statement of Revenues and Expenditures.*



## *Notes to the Financial Statements*

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The responsibility for the Comparative Statement of Revenues and Expenditures, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Potato Council. A summary of the significant accounting policies follows:

#### **A. Reporting Entity**

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

The North Dakota Potato Council is composed of one participating producer elected from each of the five districts established in chapter 4.1-10-02 of the NDCC, and the chairman is elected annually from among the members. An assessment of 3 cents per hundredweight is imposed on all potatoes grown in the state or 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 Council performs the administrative duties and the record-keeping requirements of the North Dakota Potato Council under contract. This related party is further explained in Note 2 to the Comparative Statement of Revenues and Expenditures. The Comparative Statement of Revenues and Expenditures include only activities of the North Dakota Potato Council, which is one department with one division. The North Dakota Potato Council is responsible for and is funded under a continuing appropriation and receives no funding from the state legislature.

#### **B. Reporting Structure**

The Comparative Statement of Revenues and Expenditures include 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 4-24-10 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 North Dakota Potato Council. The NPPGA is under contract with the Council to provide promotion, advertising, research, and development of Irish potatoes grown in North Dakota. The amount paid under contract was \$550,000 and \$525,000 for each fiscal year ended June 30, 2014 and 2013, 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 \$16,000 for each fiscal year 2014 and 2013. The Executive Director also performs the administrative duties for the NPPGA and for a region of the Minnesota Potato Council.

#### **NOTE 3 – OTHER SIGNIFICANT ITEMS**

The North Dakota Potato Council's cash and investments at June 30, 2014 were \$(28,870) and \$175,000 and at June 30, 2013 were \$23,054 and \$175,000, respectively. Based on the average monthly expenditures for fiscal year 2014 and 2013 of \$47,726, the total cash and investment amounts represents approximately 3.1 and 4.2 months of expenditures, respectively.

## *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 financial statements?*

Unmodified.

*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?*

No, the North Dakota Potato Council is lacking segregation of duties. However, due to the size of the council it is not feasible to implement. For additional information please see Finding 14-1 on page 13 of this report.

*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, the North Dakota Potato Council implemented the previous audit recommendation related to conducting a control/fraud risk assessment.

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

Yes. The Governance Communication on page 14 of this report contains one informal recommendation related to the coding of expenditures.

## LAFRC Audit Communications

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

None 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.*

None.

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.*

None.

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.*

None.

## Findings, Recommendations, and Management's Response

### Inadequate Segregation of Duties (Finding 14-1)

#### Condition:

The ND Potato Council lacks an adequate segregation of duties. The Council only has one contracted employee who performs all of the business functions. This individual is responsible for assessment collections, past due collections, refunding of collections, submitting vouchers for payment, reviewing check listings, as well as preparing and reviewing annual closing packages.

#### Effect:

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

#### Cause:

The ND Potato council is a small agency with limited resources and only one part time contracted staff member.

#### Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission's publication Internal Control - Integrated Framework states in part: Management should consider whether duties are segregated to reduce the risk of error or inappropriate or fraudulent actions. Segregation of duties generally entails dividing the responsibility for recording, authorizing, approving transactions, and handling the related asset. In instances where it is impractical or not feasible to segregate duties management should institute alternative control activities.

#### Recommendation:

Due to the size, complexity, and the economic realities of the ND Potato Council, it is presently not feasible to obtain adequate segregation of duties. However, there is still the possibility of implementing some compensating controls and therefore:

We recommend the North Dakota Potato Council:

- Utilize the Bank of North Dakota lockbox system for all potato assessments;
- 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; and
- Continue to keep the Board of Directors involved in the financial affairs of the Council, and consider having the Chairman, or another board member, obtain an itemized transaction register directly from OMB and document approval of the register.

#### North Dakota Potato Council Response:

*The Executive Director acknowledges the recommendation and will continue to utilize the Bank of North Dakota lockbox system and will continue to keep the ND Potato Council members involved in the financial records.*



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## Governance Communication

November 18, 2014

To: The North Dakota Potato Council

The Legislative Audit and Fiscal Review Committee

We have audited the comparative financial statements of revenues and expenditures of the North Dakota Potato Council for the years ending June 30, 2014, and 2013, and have issued our report thereon dated November 18, 2014. 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 November 18, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **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 years ending June 30, 2014 or 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

## **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 November 18, 2014.

## **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 year 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.

The following presents our informal recommendations:

### **Inadequate Controls surrounding expenditures (Informal 14-1)**

#### **Condition:**

During our testing of expenditures we noted the following errors:

- One payment in the amount of \$1,373.33 made to the Executive Director should have been coded to 621305 - Misc. Contract Fees, however was coded to 571015 - Liability Insurance.
- Payments made to the Executive Director were in violation of the contract terms. The Executive Director was overcompensated for the first 11 months of the contract, and undercompensated during the last month.

#### **Effect:**

Expenditures could be misstated which could lead to misstated financial statements. Inconsistent or incorrect use of account codes decreases the comparability of financial information from one period to the next.

#### **Cause:**

Oversight by the director.

Criteria:

Good internal controls dictate that accounts are properly coded to ensure that financial statements are accurate, consistent, and prepared in accordance with generally accepted accounting principles. Improper account code use may lead to misstated financial statements and improper decisions may be made as a result of the misstatement.

Contract terms stipulate the amount paid to the executive director in section 3 of the contract. Section 22 of the contract states "Council will not make any advance payments before performance by contractor under this contract."

Recommendation:

We recommend the Potato Council review all transactions at regular intervals to ensure they have paid the proper contractual amount, and used correct account coding.

North Dakota Potato Council Response:

*The Executive Director acknowledges the recommendation and will review all transaction at regular intervals to ensure they have the proper contractual amount and that they are coded correctly.*

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

Very truly yours,



Alex Mehring,  
Auditor in Charge



You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

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