

NORTH DAKOTA
CORN UTILIZATION COUNCIL
FARGO, NORTH DAKOTA

Audit Report

For the Two-Year Period Ended
June 30, 2016



Office of the State Auditor
Division of State Audit

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Contents

<i>Independent Auditor's Report</i>	<i>1</i>
<i>Financial Statement</i>	<i>3</i>
<i>Comparative Statement of Revenues and Expenditures</i>	<i>3</i>
<i>Notes to the Special-Purpose Financial Statement</i>	<i>4</i>
<i>Exhibits</i>	<i>6</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>6</i>
<i>Responses to LAFRC Audit Questions</i>	<i>8</i>
<i>LAFRC Audit Communications</i>	<i>9</i>
<i>Governance Communication</i>	<i>10</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Independent Auditor's Report

Honorable Jack Dalrymple, Governor
Members of the Legislative Assembly
Members of the North Dakota Corn Utilization Council
Dale Ihry, North Dakota Corn Utilization Council Executive Director

Report on the Financial Statement

We have audited the accompanying Comparative Statement of Revenues and Expenditures of the North Dakota Corn Utilization Council Fund of the state of North Dakota, for the two years ended June 30, 2016 and the related notes 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 Corn Utilization Council Fund, for the two years ended June 30, 2016, 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 Corn Utilization 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, 2016 or 2015, 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 Corn Utilization 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 December 8, 2016 on our consideration of the North Dakota Corn Utilization Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Corn Utilization Council's internal control over financial reporting and compliance.



Robert R. Peterson
State Auditor

Fargo, North Dakota

December 8, 2016

Financial Statement

Comparative Statement of Revenues and Expenditures

<u>REVENUES:</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Corn Assessments (net of refunds of \$89,108 and \$125,723)	\$ 2,810,278	\$ 2,635,817
Cash/Investment Earnings	8,221	8,076
Contributions and Private Grants	2,500	
Miscellaneous General Revenue		2,557
Total Revenues	<u>\$ 2,820,999</u>	<u>\$ 2,646,450</u>
<u>EXPENDITURES:</u>		
Grants, Benefits & Claims	\$ 1,955,220	\$ 2,041,656
Professional Development	369,525	95,225
Salaries - Permanent	174,033	363,574
Operating Fees and Services	147,225	86,631
Travel	72,304	135,159
Fringe Benefits	63,498	115,342
Rentals/Leases - Bldg/Land	42,637	38,644
Miscellaneous Supplies	13,241	7,935
Supplies - IT Software	11,047	10,693
IT Contractual Services and Repairs	8,038	66,227
Professional Fees and Services	6,574	24,839
Temporary Salaries	6,469	
Printing	4,974	13,177
Rentals/Leases-Equipment & Other	4,946	5,917
Postage	3,583	5,424
Office Supplies	3,168	2,686
Supply/Material - Professional	2,691	390
Bldg, Grounds, Vehicle Supply	2,460	4,583
IT - Communications	2,185	10,307
Utilities	1,838	1,893
Insurance	1,721	595
Other Equipment under \$5,000	1,177	50
Office Equipment & Furniture-Under \$5,000	1,103	
IT - Data Processing	200	134
Medical, Dental and Optical	25	
IT Equipment / Software Over \$5000		11,599
IT Equipment under \$5,000		565
Total Expenditures	<u>\$ 2,899,882</u>	<u>\$ 3,043,245</u>
Revenue Under Expenditures	<u>\$ (78,883)</u>	<u>\$ (396,795)</u>

See Notes to the Special-Purpose Financial Statement.

Notes to the Special-Purpose Financial Statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The responsibility for the special-purpose financial statement, the internal control structure, and compliance with laws and regulations belongs to management of the North Dakota Corn Utilization Council (Council). A summary of the significant accounting policies follows:

A. Reporting Entity

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

The Council was established with the authority to contract and cooperate with any person for market maintenance and expansion, utilization research, transportation, and education; accept donations of funds, property, services or other assistance from any source; and provide educational and informational materials. This is accomplished through the levying of an assessment on all varieties of corn grown in the state, except sweet corn and popcorn, sold to a designated handler. The amount of the levy is one-quarter of one percent of the value of a bushel.

The Council has a close working relationship with the North Dakota Corn Growers Association (Association). This relationship is further explained in Note 2 to the financial statements. The comparative statement of revenues and expenditures includes only activities of the Council, which is one department that has one division. The Council is responsible for and is funded under a continuing appropriation.

B. Reporting Structure

The special-purpose financial statement includes all activities of the reporting entity as defined above. These activities are funded from fund 270, the Corn Council 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 Council contracts with the Association, a related organization, through similar control and management for promotional activities; the Executive Director of the Council is also the Executive Director of the Association. The Council and the Association have agreed upon a policy in which the Association's Board of Directors will be the designated advisory board of the Council. For fiscal years 2016 and 2015, the Council paid \$50,000 each year and for the promotional advertising on the Association's pick-up truck, respectively. In addition, the Council paid the Association \$75,000 in fiscal year 2016, for advertising in a newsletter.

As noted in Note 1, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. This includes North Dakota State University (NDSU) and Northern Crops Institute (NCI). For fiscal years 2016 and 2015, the Council made payments to NDSU for corn research project contracts of \$853,130 and \$794,277, respectively. For fiscal year 2015, the Council made payments to NCI for a grant for \$12,000.

The Council also has a particularly close working relationship with the US Grains Council (USGC). For fiscal years 2016 and 2015, the Council paid \$156,000 each year for promotional marketing and development contracts.

NOTE 3 – OTHER SIGNIFICANT ITEMS

The Council has cash and investment reserves of \$3,601,962 and \$3,718,575 at June 30, 2016 and June 30, 2015, respectively. Based on the average monthly expenditures for fiscal year 2016 and 2015, this amount represents approximately 15 months of expenditures for each fiscal year.



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Exhibits

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

Independent Auditor's Report

Honorable Jack Dalrymple, Governor
Members of the Legislative Assembly
Members of the North Dakota Corn Utilization Council
Dale Ihry, North Dakota Corn Utilization Council Executive Director

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the North Dakota Corn Utilization Council, for the two-year period ended June 30, 2016, and the related notes to the financial statement and have issued our report thereon dated December 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Dakota Corn Utilization 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 Corn Utilization Council's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Corn Utilization 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Corn Utilization 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*.

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

December 8, 2016

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 statement?*

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?*

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.*

Yes. The Governance Communication on page 10 of this report contains one informal recommendation relating to an improper expenditure for a ballot measure. The Council agreed with the recommendation.

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 noted.

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 special-purpose financial statement.*

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.*

ConnectND Finance and Human Capital Management System (HCM) are the most high-risk information technology systems critical to the Council. No exceptions related to the operations of an information technology system were noted.

Governance Communication

December 8, 2016

To: The North Dakota Corn Utilization Council
The Legislative Audit and Fiscal Review Committee

We have audited the financial statement of the governmental activities of the North Dakota Corn Utilization Council Fund of the state of North Dakota for the two-year period ended June 30, 2016, and have issued our report thereon dated December 8, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2016. 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 Corn Utilization Council are described in Note 1 to the comparative statement of revenues and expenditures. No new accounting policies were adopted and the application of existing policies was not changed during the two-year period. We noted no transactions entered into by the 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. None of the misstatements detected as a result of audit procedures 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 letters dated November 22 and December 8, 2016.

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 information recommendation.

Improper Expenditure for Ballot Measure (Informal 16-1)

Condition:

In September 2014, the Council approved and made a payment for \$62,500 to the North Dakota Chamber of Commerce to help defeat Measure 5, North Dakota Clean Water, Wildlife and Parks Amendment, on the November 2014 North Dakota ballot. The Council did not have the legal authority to make this payment to defeat a ballot measure.

Criteria:

NDCC 16.1-10-02 states in part that no person may use any property, which includes funds of money, of a state agency for a political purpose. Political purpose means any activity undertaken in support of or in opposition to a statewide initiated or referred measure, a constitutional amendment or measure and includes using support or opposition language in any advertisement.

Cause:

The Council at the time did not seek legal authority to determine if this was a proper expenditure.

Effect:

The Council is not in compliance with NDCC 16.1-10-02.

Recommendation:

We recommend that in the future the Council comply with NDCC 16.1-10-02 by not making expenditures for political purposes.

North Dakota Corn Utilization Council's Response:

The North Dakota Corn Council agrees. Upon review of this finding by current North Dakota Corn Council staff, none of whom were employed in September 2014, it appears that a payment was made to the North Dakota Chamber of Commerce for Measure 5, under NDCC 4.1-04-09 item 1, educational program. Current North Dakota Corn Council staff will follow audit recommendation and will inform the North Dakota Corn Council of its legal authority and/or receive legal opinion on future funding decisions that are out of the ordinary.

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

Very truly yours,

A handwritten signature in black ink, appearing to read 'Cory Wigdahl', with a long horizontal flourish extending to the right.

Cory Wigdahl, CFE
Auditor In-Charge

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