

NORTH DAKOTA STATE  
SEED DEPARTMENT

FARGO, 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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# Contents

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<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>5</i>
<i>Discussion and Analysis</i>	<i>7</i>
<i>Financial Summary</i>	<i>7</i>
<i>Analysis of Significant Changes in Operations</i>	<i>7</i>
<i>Analysis of Significant Variances - Budgeted and Actual Expenditures</i>	<i>7</i>
<i>Financial Statements</i>	<i>8</i>
<i>Statement of Revenues and Expenditures</i>	<i>8</i>
<i>Statement of Appropriations</i>	<i>9</i>
<i>Internal Control</i>	<i>10</i>
<i>Compliance With Legislative Intent</i>	<i>11</i>
<i>Operations</i>	<i>13</i>
<i>Increased Usage of the Purchase Card (Finding 12-1)</i>	<i>13</i>
<i>Management Letter (Informal Recommendations)</i>	<i>15</i>

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## *Transmittal Letter*

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May 20, 2013

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
Members of the North Dakota State Seed Commission  
Mr. Ken Bertsch, Commissioner, North Dakota State Seed Department

We are pleased to submit this audit of the North Dakota State Seed Department for the two-year period ended June 30, 2012. 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 Cory Wigdahl, CFE. Tyson Lund, CPA, was the staff auditor. John Grettum, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Commissioner Bertsch and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *Introduction*

The Seed Department was established by the North Dakota Legislature in 1931 as the state's designated authority for all seed certification and regulatory matters. The Seed Department is unique by comparison to most state agencies, or seed certification entities, in that it is a self-funded agency of government, and provides inspection, testing, and regulatory enforcement services for all crops, including potatoes. A nine-member seed commission acts as board of directors for the agency. Members are selected to serve by various agriculture industry organizations, including the North Dakota Crop Improvement Association, the North Dakota Certified Seed Potato Growers Association, the North Dakota Agricultural Association, the Northern Plains Potato Growers Association, the North Dakota Potato Council, the North Dakota Grain Dealers Association, the North Dakota Dry Edible Bean Seed Growers Association, and the Director of the North Dakota State University Agriculture Experiment Station. The Commissioner of Agriculture, or his designee, serves as chairman of the Commission. The Commission appoints a State Seed Commissioner, who serves as chief executive officer of the Department.

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 North Dakota State Seed Department 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 unqualified opinion was issued.

### *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?*

Other than our work addressing "increased usage of the purchase card" (page 13) there were no indications of lack of efficiency in financial operations and management of the North Dakota State Seed Department.

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, a management letter which included one informal recommendation to improve internal controls surrounding meal reimbursements was issued and is included on page 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.*

None.

9. *Identify any significant audit adjustments.*

None.

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, Human Resource Management System (HRMS) and State Seed Administration Software (SSAS) are high-risk information technology systems critical to the North Dakota State Seed Department. No exceptions were noted that directly related to the operations of an information technology system.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the North Dakota State Seed Department for the two-year period ended June 30, 2012 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota State Seed Department'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 North Dakota State Seed Department and are they in compliance with these laws?
3. Are there areas of the North Dakota State Seed Department's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the North Dakota State Seed Department is for the two-year period ended June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota State Seed Department has operations in the following locations. Each location was included in the audit scope:

- The central office in Fargo
- A branch office in Grafton

## ***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 developed a 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 North Dakota State Seed Department's processes and procedures.

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

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared to present the North Dakota State Seed Department'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).

For the two-year period June 30, 2012, operations of the North Dakota State Seed Department were primarily supported by regulatory fees.

### ***Financial Summary***

Revenues consisted primarily of regulatory fees. Other revenues during the audited period included earnings from interest and fees. These all remained fairly constant for the North Dakota State Seed department, except regulatory fees which increased by approximately \$290,000. This was primarily due to an increase in the minimum charged per lot for Seed Certification Fees that became effective in fiscal year 2012. Total revenues were \$3,024,375 for the year ended June 30, 2012 as compared to \$2,696,953 for the year ended June 30, 2011.

Total expenditures for the North Dakota State Seed Department were \$2,484,966 for the year ended June 30, 2012 as compared to \$2,484,819 for the prior year. Expenditures remained fairly constant for the North Dakota State Seed Department, increasing only slightly.

### ***Analysis of Significant Changes in Operations***

There were no significant changes in operation.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

For the fiscal years ended June 30, 2012 and 2011, there were no significant variances between the original and final budgeted amounts or between the final budgeted and actual expenditures.

# Financial Statements

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## Statement of Revenues and Expenditures

<b><u>Revenues and Other Sources:</u></b>	<b><u>June 30, 2012</u></b>	<b><u>June 30, 2011</u></b>
Regulatory & Inspection Fees	2,864,613	2,573,026
Fees for Services	98,762	93,043
Fines-Forfeitures-Escheat	23,000	0
Leases, Rents, and Royalties	17,160	0
Interest & Investment Earnings	13,314	23,265
Licenses, Permits, & Fees	6,822	7,027
Miscellaneous Revenue	704	592
<b>Total Revenues and Other Sources</b>	<b>\$ 3,024,375</b>	<b>\$ 2,696,953</b>

<b><u>Expenses and Other Uses:</u></b>		
Salaries and Benefits	1,765,046	1,747,331
Travel	154,333	155,893
Other Capital Payments	85,410	83,540
Utilities	80,752	86,446
Grants, Benefits & Claims	70,000	80,000
Fees - Professional Services	47,953	22,313
Operating Fees and Services	39,578	28,988
Supply/Material-Professional	36,327	32,991
Lab Supplies	35,334	45,172
Professional Development	25,289	23,067
Postage	22,823	24,979
Office Supplies	20,032	21,383
Printing	17,585	22,877
IT Contractual Services and Repairs	16,146	21,975
IT-Communications	15,626	15,994
Rentals/Leases-Equip & Other	11,023	11,350
Repairs	9,338	15,465
Insurance	7,967	3,882
Supplies - IT Software	7,760	8,635
IT - Data Processing	6,718	7,090
IT Equip under \$5000	5,873	5,377
Bldg, Grounds, Vehicle Supply	4,050	2,053
Miscellaneous Supplies	0	1,203
Equipment Over \$5000	0	16,813
<b>Total Expenses and Other Uses</b>	<b>\$ 2,484,965</b>	<b>\$ 2,484,819</b>

## Statement of Appropriations

### For The Biennium Ended June 30, 2011

	Original Appropriation	Adjustments	Adjusted Appropriation	Total Expenditures	Unexpended Appropriation
Seed Operations	\$ 6,805,495	\$ 22,000	\$ 6,827,495	\$ 5,103,036	\$ 1,724,459
<b>Totals</b>	<b>\$ 6,805,495</b>	<b>\$ 22,000</b>	<b>\$ 6,827,495</b>	<b>\$ 5,103,036</b>	<b>\$ 1,724,459</b>
Expenditures by Source:					
Special Funds	\$ 6,805,495	\$ 22,000	\$ 6,827,495	\$ 5,103,036	\$ 1,724,459
<b>Totals</b>	<b>\$ 6,805,495</b>	<b>\$ 22,000</b>	<b>\$ 6,827,495</b>	<b>\$ 5,103,036</b>	<b>\$ 1,724,459</b>

### For The Year Ended June 30, 2012

	Original Appropriation	Adjustments	Adjusted Appropriation	FY 2012 Expenditures	Unexpended Appropriation
Seed Operations	\$ 6,894,011	\$ -	\$ 6,894,011	\$ 2,484,965	\$ 4,409,046
<b>Totals</b>	<b>\$ 6,894,011</b>	<b>\$ -</b>	<b>\$ 6,894,011</b>	<b>\$ 2,484,965</b>	<b>\$ 4,409,046</b>
Expenditures by Source:					
Special Funds	\$ 6,894,011	\$ -	\$ 6,894,011	\$ 2,484,965	\$ 4,409,046
<b>Totals</b>	<b>\$ 6,894,011</b>	<b>\$ -</b>	<b>\$ 6,894,011</b>	<b>\$ 2,484,965</b>	<b>\$ 4,409,046</b>

### Appropriation Adjustments:

For the biennium ended June 30, 2011, the adjustment was for market equity compensation pursuant to 2009 HB 1015.

## ***Internal Control***

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In our audit for the two-year period ended June 30, 2012, we identified the following areas of the North Dakota State Seed Department'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 effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based financial administrative software.

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 North Dakota State Seed Department in a management letter dated April 23, 2013.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2012, we identified and tested North Dakota State Seed Department's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Members of the Seed Commission received \$135/day and reimbursement for expenses as specified by NDCC 4.1-53-07.
- The Seed Commission appointed a Commissioner and fixed his salary within legislative appropriation. (NDCC 4.1-53-09)
- The Commissioner, with the approval of the Seed Commission, established and charged fees for laboratory tests and services. (NDCC 4.1-53-11)
- The Commissioner established a seed certification system, and made the requirements for seed certification readily available in electronic and printed formats. (NDCC 4.1-53-42)
- Fees for making commodity grade inspections determined by the Commissioner, with the approval of the Seed Commission, were established and uniform throughout the state for specified periods of time. (NDCC 4.1-53-11)
- Nonresidents are required to submit an annual application for a nonresident seed dealer license and submit an annual license fee. (NDCC 4.1-53-41)
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 and 2009 North Dakota Session Laws).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted an inconsequential or insignificant instance of non-compliance that we have reported to management of the North Dakota State Seed Department in a management letter dated April 23, 2013.

## *Operations*

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Our audit of the North Dakota State Seed Department identified the following area of potential improvement to operations, as expressed by our operational objective:

- Did the North Dakota State Seed Department utilize the purchase card program so as to maximize the amount of applicable purchases made on the purchase card versus making payment through the Accounts Payable module?

### ***Increased Usage of the Purchase Card (Finding 12-1)***

#### **Condition:**

The State Seed Department is not utilizing the purchase card (P-card). Based on an analysis of expenditures for fiscal years 2011 and 2012, the State Seed Department made the following payments by check - some of which could have been made by using the P-card:

2011

- 445 payments for purchases less than \$2,500, totaling \$143,446
- 29 payments for purchases greater than \$2,500, totaling \$147,405

2012

- 416 payments for purchases less than \$2,500, totaling \$134,452
- 27 payments for purchases greater than \$2,500, totaling \$154,142

#### **Criteria:**

- *OMB Purchasing Card manual* – denotes some of the benefits of using the P-card to include: 1) reducing administrative costs for the state; 2) reducing the amount of paperwork; and 3) reducing the number of checks issued, among other benefits.
- *Government Finance Officers Association (GFOA) Recommended Best Practices* – use of purchasing cards improves the efficiency of purchasing procedures and reduces overall purchase processing costs.
- *National Association of Purchasing Professionals* – estimates that P-cards can save 55% to 90% off the cost of a payment transaction.
- *RPMG Research Corp.* – 2003 Purchasing Card Benchmarking Study demonstrated that P-cards reduce the procurement cycle by 74%.
- *RPMG Research Corp.* – 2005 Purchasing Card Benchmarking Study Highlighted the cost savings of using a P-card ranges from \$24 (normal purchase process) up to \$67 (making a purchase via a purchase order) per transaction.

#### **Cause:**

The State Seed Department has not fully examined the cost savings of the P-card program to the state or the State Seed Department.



**Effect or Potential Effect:**

Time savings from utilizing the P-card over the processing of a check are not realized. As well, additional revenue would have been available to the state general fund through the rebate program with JP Morgan had the State Seed Department paid eligible expenditures with the P-card during fiscal years 2011 and 2012.

**Operational Improvement:***Recommendation:*

We recommend the State Seed Department:

1. Begin utilizing the P-card as a form of payment.
2. Meet with officials from the Office of Management and Budget to facilitate this process by:
  - Understanding the procedures and process for using the P-card,
  - Raising the P-card limit,
  - Identifying vendors for which P-card payments could be made, and
  - Changing the accounting on their P-card vendors as to limit the need to reallocate P-card expenditures.

**North Dakota State Seed Department's Response:**

Agree. NDSSD will meet with OMB to discuss P-Card utilization, including those areas where P-Card use may increase efficiency of purchasing and approval unique to NDSSD administrative processes.

## ***Management Letter (Informal Recommendations)***

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May 20, 2013

Mr. Ken Bertsch  
State Seed Commissioner  
North Dakota State Seed Department  
P.O. Box 5257  
Fargo, ND 58105-5257

Dear Mr. Bertsch:

We have performed an audit of the North Dakota State Seed Department for the two-year period ended June 30, 2012, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota State Seed Department'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.

### **Lack of Sufficient Documentation for Meal Reimbursements**

Four out of twenty-five travel vouchers in the test of travel expenditures indicated employees were reimbursed for meals without providing adequate support for the departure and arrival times.

OMB policy 505 states before any allowance for such mileage or travel expenses will be made, the official, deputy, assistant, clerk, or other employee will file with the agency, an itemized statement showing mileage traveled, the purpose thereof, and such other information and documentation as may be prescribed by the IRS, or an agency.

Further, State Seed's instructions for completing a travel expense voucher state, "Hours of departure and arrival must be completed if you are claiming any meal expense for the day, and meals must fall into the times and limitations as defined in the travel expense policy."

**Informal Recommendation 12-1:**

We recommend that ND State Seed Department:

- Require that hours of departure and arrival are filled in for any employee that is claiming a meal expense reimbursement and if the hours are not filled out accordingly, the individual should not be reimbursed.
- Ensure that OMB Policy 505 and State Seeds travel expense policy are followed and adequate documentation is included for all travel expenses being claimed.

**North Dakota State Seed Department's Response:**

Agree. While NDSSD can confirm hours of work for travel vouchers through documentation on Federal Form FV-184, NDSSD will implement a policy whereby reimbursement of expense claims will be denied without accurate reporting on expense vouchers.

Corrective action: claim reimbursement policy will be re-written and implemented immediately.

I encourage you to call myself at 701-239-7296 or the audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Cory Wigdahl, CFE  
Auditor in-charge

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