

NORTH DAKOTA BEEF COMMISSION  
BISMARCK, NORTH DAKOTA

# Audit Report

For the Fiscal Years Ending  
June 30, 2012 and June 30, 2011

ROBERT R. PETERSON  
STATE AUDITOR

Office of the State Auditor  
Division of State Audit

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

## *Independent Auditor's Report*

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Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director

We have audited the accompanying financial statements of the Beef Commission Fund of the North Dakota Beef Commission, a department of the state of North Dakota as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the North Dakota Beef Commission's management. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Beef Commission Fund and do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Beef Commission Fund of the North Dakota Beef Commission as of June 30, 2012 and 2011, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of the North Dakota Beef Commission'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 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the North Dakota Beef Commission Fund's financial statements. The Detailed Schedule of Expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Detailed Schedule of Expenditures is fairly stated in all material respects in relation to the financial statements as a whole.



Robert R. Peterson  
State Auditor

October 26, 2012

***Independent Auditor's 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***

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Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director

We have audited the financial statements of the Beef Commission Fund of the North Dakota Beef Commission as of and for the fiscal year ended June 30, 2012, which comprise the North Dakota Beef Commission's financial statements and have issued our report thereon dated October 26, 2012. 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 Beef Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Beef Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Beef Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Beef Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of Findings, Recommendations, and Management Response, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. We consider the deficiency described in the

accompanying schedule of Findings, Recommendations, and Management Response to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Beef Commission's financial statements are 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*.

In connection with our audit, nothing came to our attention that caused us to believe the North Dakota Beef Commission failed to comply with the terms, in so far as they related to accounting matters of the Beef Promotion and Research Act of 1985, and the Beef Promotions and Research Order ( the "Order"), relative to the use of funds collected by the North Dakota Beef Commission and with terms described in Sections 1260.181(b)(7) of the Order relative to prohibited uses of funds collected by the North Dakota Beef Commission. However, our audit was not directed toward obtaining knowledge of such noncompliance.

We noted certain matters that we reported to management of the North Dakota Beef Commission in a separate letter dated October 26, 2012, included in this report under Governance Communication.

This report is intended solely for the information and use of management, the North Dakota Beef Commission's Board of Directors, others within the entity, the Governor, 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.



Robert R. Peterson  
State Auditor

October 26, 2012

## *Financial Statements*

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### **Balance Sheet**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Assets</u>		
Cash and Cash Equivalents		\$ 60,095
Investments	\$ 249,000	249,000
Assessments Receivable	34,715	33,832
Interest Receivable	102	170
Total Assets	<u>\$ 283,817</u>	<u>\$ 343,097</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts Payable	\$ 4,943	\$ 11,627
Accrued Payroll	13,641	16,632
Due to Cattlemen's Beef Board	34,674	38,526
Due to the National Cattlemen's Beef Association	11,095	12,327
Due to Other States	1,073	1,208
Due to State General Fund	4,953	
Total Liabilities	<u>\$ 70,379</u>	<u>\$ 80,320</u>
Fund Balance:		
Restricted	<u>\$ 213,438</u>	<u>\$ 262,777</u>
Total Fund Balances	<u>\$ 213,438</u>	<u>\$ 262,777</u>
Total Liabilities and Fund Balances	<u>\$ 283,817</u>	<u>\$ 343,097</u>

See Notes to the Financial Statements.



# Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
<b><u>Revenues</u></b>		
Gross Assessment Revenue	\$ 1,111,322	\$ 1,174,014
Less:		
Assessment revenue remitted to other states	(28,185)	(35,850)
Assessment revenue remitted to Cattlemen's Beef Board	(541,642)	(569,154)
Net Assessment Revenues	\$ 541,495	\$ 569,010
Interest Income	2,453	4,280
Beef Gift Certificates	18,295	18,195
Other Revenue	7,576	7,725
Total Revenues	\$ 569,819	\$ 599,210
<b><u>Expenditures</u></b>		
Program Expenditures:		
International Promotion	\$ 21,836	\$ 26,123
Promotion	41,874	37,603
Industry Information	10,000	
Research	16,600	22,203
Consumer Information	95,272	115,663
National Program Development	156,004	164,799
Total Program Expenditures	\$ 341,586	\$ 366,391
Beef Gift Certificates	18,295	18,195
Administration	259,277	254,829
Total Expenditures	\$ 619,158	\$ 639,415
Revenues Over Expenditures	\$ (49,339)	\$ (40,205)
Fund Balance, Beginning of Year	262,777	302,982
Fund Balance, End of Year	\$ 213,438	\$ 262,777

*See Notes to the Financial Statements.*

## *Notes to the Financial Statements*

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

The responsibility for these financial statements, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Beef Commission (hereafter Commission). A summary of the significant accounting policies follows:

#### A. Reporting Entity

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

The Commission was established by NDCC chapter 4.1-3, and is vested with the powers to collect and expend an assessment of one dollar for each head of cattle sold within the state or from the state by residents of North Dakota. The Commission's responsibilities are to provide and participate in programs to increase the consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education, but at no time may false or unwarranted claims be made on behalf of the beef industry. Additional responsibilities are to support beef promotion, research, and education activities of the national beef promotion and marketing organizations. The Commission is also to initiate, encourage, and sponsor research designed to solve problems in the beef industry and to enhance the sale and production of North Dakota beef cattle.

#### B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with NDCC section 4.1-03-16 these activities are funded on a continuing appropriation basis from a special revenue fund (the Beef Commission fund).

#### C. Fund Financial Statements

Separate fund financial statements are provided for the Beef Commission governmental fund.

#### D. Fund Accounting Structure

The Commission uses a fund to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Commission reports the Beef Commission's operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions to provide and participate in programs to increase the use and consumption of beef through such means as advertising, research, consumer information, industry information, sales promotion, and education of the beef industry.

E. Basis for Accounting

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days of year end. Major revenues that are determined to be susceptible to accrual are assessments and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

F. Cash and Cash Equivalents

Cash and cash equivalents includes all funds deposited with the Bank of North Dakota.

G. Investments

Investments include certificates of deposit that are reported at cost.

H. Receivables

Receivables include assessments and interest receivable.

I. Compensated Absences

Annual and sick leave are a part of permanent employees' compensation as set forth in section 54-06-04 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at April 30, while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement, per section 54-06-14 of the North Dakota Century Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave.

J. Fund Balance

The difference between fund assets and liabilities is "Fund Balance" on the governmental fund statements. Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned. All of the Commission's fund balance is considered restricted. The North Dakota Beef

Commission's fund balance is restricted by enabling legislation contained in the North Dakota Century Code Chapter 4.1-03 to be spent only pursuant to that Chapter.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

A. Deposits

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "all state funds . . . must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

The carrying amount of deposits was \$0 and \$60,095 at June 30, 2012 and 2011, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Commission's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these investments are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

B. Investments

All investments must be short-term (one year or less), risk free (federally insured or fully collateralized), and interest bearing. The fair value of investments was \$249,000 and \$249,000 at June 30, 2012 and 2011, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 states the State Treasurer shall credit twenty percent of the investment income to the general fund in the state treasury as payment for services when provided without cost to the Commission, the remaining eighty percent is credited to the beef fund.

**NOTE 3 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2012 and 2011 is presented as follows:

	<u>Balance 7/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2012</u>	<u>Current Portion</u>
Other long-term liabilities:					
Compensated absences	<u>\$ 29,651</u>	<u>\$ 299</u>	<u>\$ 10,679</u>	<u>\$ 19,271</u>	<u>\$ 10,679</u>
	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2011</u>	<u>Current Portion</u>
Other long-term liabilities:					
Compensated absences	<u>\$ 26,999</u>	<u>\$ 15,828</u>	<u>\$ 13,176</u>	<u>\$ 29,651</u>	<u>\$ 13,176</u>

#### **NOTE 4 - PENSION AND POST-RETIREMENT PLANS/BENEFITS**

The Commission participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following is a brief description of the plan:

##### **A. Description of Pension Plan**

NDPERS has a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the state. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to either a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit, if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid; the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary, with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2% for each year of service times their final average salary. The plan permits early retirement at ages 55-64, with three or more years of service.

##### **B. Pension Plan Funding Policy**

NDPERS is funded by employee contributions (set by statute) of 4% (5% as of January 2012) of regular compensation. During the 1983-1985 biennium the state implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The state paid the full employee contribution until January 2012 when the employee began paying 1% of covered compensation. Employer contributions of 4.12% (5.12% as of January 2012) of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 8.12% (10.12% as of January 2012) of their covered compensation.

The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The Commission's required and actual contributions to NDPERS for the fiscal years ending June 30, 2012, 2011, and 2010 were \$12,787, \$13,260, and \$12,751, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to: NDPERS, 400 East Broadway, Suite 505, PO Box 1657, Bismarck, ND 58502-1657.

#### **NOTE 5 – POST-RETIREMENT BENEFITS**

Section 54-52.1-03.2 of the North Dakota Century Code establishes a Retiree Health Benefits Fund to provide members who receive retirement benefits from the Public Employees Retirement System a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1.14% of covered compensation. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Benefits Fund.

#### **NOTE 6 - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to: torts; theft of; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues.

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person, and \$1,000,000 per occurrence.

The Commission also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover for loss to business personal property, up to a limit of \$100,000. Replacement cost coverage is provided by estimating the replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of \$300,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Commission participates in the North Dakota Worker's Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

## *Supplementary Information*

### **Detailed Schedule of Expenditures**

	<u>2012</u>	<u>2011</u>
Administration		
Compensation:		
Salaries	\$ 142,901	\$ 143,204
Benefits	51,484	54,657
Per Diem – Commissioners	9,150	8,470
Operations:		
Rent	11,468	11,984
Audit	4,256	4,153
Compliance Program	2,060	1,515
Telephone	1,660	1,799
Equipment, Service, Programming	5,530	3,164
Supplies, Postage, Printing, Legal	2,375	2,538
Insurance	697	935
Travel – Staff	6,265	7,399
Travel – Commissioners	21,431	15,011
Total Administration	<u>\$ 259,277</u>	<u>\$ 254,829</u>
Program Expenditures		
International Promotion	\$ 21,836	\$ 26,123
Promotion:		
Advertising	36,145	36,233
Retail and Food Service	5,729	1,370
Research	16,600	22,203
Industry Information	10,000	
Consumer Information:		
Health	2,339	6,184
Education	26,739	14,037
Public Relations and Media	38,012	74,721
Cattlemen	16,869	9,160
Producer Information	11,313	11,561
National Program Development	156,004	164,799
Total Program Expenditures	<u>\$ 341,586</u>	<u>\$ 366,391</u>

## 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?*

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?*

No. See the material weakness included in this report under “Findings, Recommendations, and Management Response.”

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

No.

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

There were no recommendations in the prior North Dakota Beef Commission audit.

- 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 16 of this report contains one informal recommendation related to the use of two accounting systems.



## 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.*

ConnectND Finance, Human Resource Management System (HRMS), and Great Plains Accounting software are the most high-risk information technology systems critical to the North Dakota Beef Commission.

# Findings, Recommendations, and Management Response

## **SEGREGATION OF DUTIES (Finding 12-1)**

### **Condition:**

The North Dakota Beef Commission does not have proper segregation of duties surrounding revenue collections. One individual is responsible for receipting, depositing, and recording revenue. There is no independent reconciliation of receipts to deposits to ensure all collections were deposited.

### **Criteria:**

The Committee of Sponsoring Organizations (COSO) states that controls and the monitoring of those controls are important components of enterprise risk management.

### **Cause:**

The collection process was segregated between two employees until January 2012, when one of the employees retired. Since that time, one employee has performed all collection functions. Internal controls have not been reviewed or modified since that time.

### **Effect or Potential Effect:**

A lack of internal controls provides an opportunity for fraud to occur and for increased errors and misstatements.

### **Recommendation:**

We recommend the North Dakota Beef Commission properly segregate duties surrounding revenue collections.

### ***North Dakota Beef Commission Response:***

*The North Dakota Beef Commission agrees with this recommendation and is actively pursuing steps to segregate duties among a small staff leading to better internal controls.*

# Governance Communication

October 26, 2012

Legislative Audit and Fiscal Review Committee

North Dakota Beef Commission Board of Directors

We have audited the financial statements of the North Dakota Beef Commission for the year ended June 30, 2012, and have issued our report thereon dated October 26, 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 the North Dakota Beef Commission 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 year. 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. There were no known or likely misstatements that we needed to report to management.

## **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 26, 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 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.

### **Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, and the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The following presents our informal recommendations:

### **Great Plains Accounting System (Informal 12-1)**

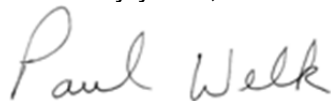
#### **Recommendation:**

We recommend the Beef Commission:

1. Discontinue the use of the Great Plains accounting system and only use PeopleSoft, and
2. Work with OMB to develop or customize the needed reports.

This information is intended solely for the use of the Legislative Audit and Fiscal Review Committee and the North Dakota Beef Commission Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely yours,



Paul Welk, CPA  
Audit Manager

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Division of State Audit

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