Client Code 624

NORTH DAKOTA BEEF COMMISSION

BISMARCK, NORTH DAKOTA

Audit Report

For the Fiscal Years Ending
June 30, 2013 and June 30, 2012

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director

We have audited the accompanying financial statements of the North Dakota Beef Commission Fund of the state of North Dakota, as of and for the years ended June 30, 2013, and 2012 and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. 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 statements 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 statements.

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 statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Beef Commission Fund, as of June 30, 2013 and 2012 and the change in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the North Dakota 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, 2013 or 2012 or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the North Dakota Beef Commission Fund's financial statements. The *Detailed Schedule of Expenditures* is presented for purposes of additional analysis and are not a required part of the financial statements.

The *Detailed Schedule of Expenditures* 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. Such 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013 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, 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 Beef Commission's internal control over financial reporting and compliance.

Robert R. Peterson
State Auditor

October 24, 2013

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director

We have audited, in accordance with the 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 statements of the North Dakota Beef Commission Fund of the state of North Dakota as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise North Dakota Beef Commission Fund's financial statements, and have issued our report thereon dated October 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota Beef Commission'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Beef Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Beef Commission'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, 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 Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, the Beef Promotion and Research Act of 1985, and the Beef Promotions and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Beef Commission and with terms described in Section 1260.149(f) and Section 1260.181(b) of the Order relative to prohibited uses of funds collected by the North Dakota Beef Commission, 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 that 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, with the terms described in Section 1260.181(b) of the Order relative to prohibited use of funds collected by the North Dakota Beef Commission, and with the terms described in Section 1260.149(f) of the Order relative to the investment of funds collected by the North Dakota Beef Commission. However, our audit was not directed toward obtaining knowledge of such noncompliance.

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.

Bob Peterson

Robert R. Peterson
State Auditor

October 24, 2013

Financial Statements

Balance Sheet

		June 30, 2013		June 30, 2012
Assets				
Cash and Cash Equivalents	$	109,526		
Investments		149,000	$	249,000
Assessments Receivable		50,928		34,715
Interest Receivable		142		102
Total Assets	$	309,596	$	283,817
Liabilities and Fund Balance				
Liabilities:				
Accounts Payable	$	24,030	$	4,943
Accrued Payroll		13,569		13,641
Due to Cattlemen’s Beef Board		58,409		34,674
Due to the National Cattlemen’s Beef Association		16,685		11,095
Due to Other States		2,731		1,073
Due to State General Fund				4,953
Total Liabilities	$	115,424	$	70,379
Fund Balance:				
Restricted	$	194,172	$	213,438
Total Fund Balances	$	194,172	$	213,438
Total Liabilities and Fund Balances	$	309,596	$	283,817

See Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Year Ended June 30

	2013	2012
Revenues		
Gross Assessment Revenue	$ 1,140,774	$ 1,111,322
Less:		
Assessment revenue remitted to other states	(29,734)	(28,185)
Assessment revenue remitted to Cattlemen's Beef Board	(555,887)	(541,642)
Net Assessment Revenues	$ 555,153	$ 541,495
Interest Income	967	2,453
Beef Gift Certificates	16,510	18,295
Other Revenue	7,732	7,576
Total Revenues	$ 580,362	$ 569,819
Expenditures		
Program Expenditures:		
International Promotion	$ 22,750	$ 21,836
Promotion	33,016	41,874
Industry Information	200	10,000
Research	18,125	16,600
Consumer Information	128,030	95,272
National Program Development	158,660	156,004
Total Program Expenditures	$ 360,781	$ 341,586
Beef Gift Certificates	16,510	18,295
Administration	222,337	259,277
Total Expenditures	$ 599,628	$ 619,158
Revenues Over Expenditures	$ (19,266)	$ (49,339)
Fund Balance, Beginning of Year	213,438	262,777
Fund Balance, End of Year	$ 194,172	$ 213,438

See Notes to the Financial Statements.

Notes to the Financial Statements

NOTE 1 - <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

The accompanying financial statements of the North Dakota Beef Commission (hereafter Commission) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. <u>Reporting Entity</u>

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. <u>Reporting Structure</u>

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. <u>Fund Financial Statements</u>

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

D. <u>Fund Accounting Structure</u>

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 fair value.

H. Receivables

Receivables include assessments receivable on cattle sales, accounts payable, and interest receivable on investments.

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 $109,526 and $0 at June 30, 2013 and 2012, 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 $149,000 and $249,000 at June 30, 2013 and 2012, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 states the State Treasurer shall credit 20% 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 80% 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:

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Current Portion
Compensated absences	$ 19,271	$ 6,462	$ 4,583	$ 21,150	$ 4,583

	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Current Portion
Compensated absences	$ 29,651	$ 299	$ 10,679	$ 19,271	$ 10,679

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.

NDPERS is a cost-sharing, multiple-employer defined benefit pension plan covering substantially all employees of the state of North Dakota. 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 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 employee's 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 2.00% of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires employee contributions of 4% (effective through December 31, 2011), 5% (effective January 1, 2012), and 6% (effective January 1, 2013) of the participant's 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 is paying 4% of the full employee contribution. Employer contributions of 4.12% (effective through December 31, 2011), 5.12% (effective January 1, 2012), and 6.12% (effective January 1, 2013) of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. The Office of the State Auditor's required and actual contributions to NDPERS for the fiscal years ending June 30, 2013, 2012, and 2011 were $12,095, $12,787, and $13,260, 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 Ave, 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 and 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

	2013	2012
Administration		
Compensation:		
Salaries	$ 115,957	$ 142,901
Benefits	42,695	51,484
Per Diem – Commissioners	8,850	9,150
Operations:		
Rent	11,984	11,468
Audit	4,363	4,256
Compliance Program	1,380	2,060
Telephone	1,649	1,660
Equipment, Service, Programming	3,834	5,530
Supplies, Postage, Printing, Legal	3,979	2,375
Insurance	699	697
Travel – Staff	6,584	6,265
Travel – Commissioners	20,363	21,431
Total Administration	$ 222,337	$ 259,277
Program Expenditures		
International Promotion	$ 22,750	$ 21,836
Promotion:		
Advertising	31,874	36,145
Retail and Food Service	1,143	5,729
Research	18,125	16,600
Industry Information	200	10,000
Consumer Information:		
Health	5,678	2,339
Education	22,814	26,739
Public Relations and Media	55,816	38,012
Cattlewomen	26,541	16,869
Producer Information	17,181	11,313
National Program Development	158,660	156,004
Total Program Expenditures	$ 360,781	$ 341,586

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. 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?*

   No. The prior recommendation regarding a lack of segregation of duties is reissued (See page 16).

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

   Yes. The Governance Communication on pages 17-18 of this report contains one informal recommendation related to proper supporting documentation for 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.*

   There were no significant changes in accounting policies; no management conflicts of interest were noted.

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

   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.*

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

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

   None.

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

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

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

   None.

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

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

Findings, Recommendations, and Management Response

SEGREGATION OF DUTIES (Finding 13-1)

Condition:
The North Dakota Beef Commission does not have proper segregation of duties surrounding revenue collections and the gift certificate account. Checks are not restrictively endorsed upon receipt and there is no independent reconciliation of receipts to deposits to ensure all collections were deposited. Additionally, both employees have the ability to collect money and write and sign checks for the gift certificate account.

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 North Dakota Beef Commission has had only two employees since 2012, making complete segregation of duties difficult.

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 and the gift certificate account.

North Dakota Beef Commission Response:

The ND Beef Commission realizes there is a lack of internal control as it relates to revenue collections. We have taken steps over the past two years to segregate duties between our two staff members but acknowledge that there are only so many ways to do this when there are times that only one staff member is in the office. The Beef Gift Certificate account, used for issuing gift certificates that consumers can purchase and redeem for beef, is unique as people can walk in the door and purchase them at any time. The office manager prints the certificates and the executive director signs them in the regular course of business. However, with only two staff members, both are authorized to issue and sign these “checks” in the event that only one staff member is in the office at the time a customer comes to purchase one. We will continue to work toward additional segregation of duties into the future and are hopeful that when our income is such that we can afford to replace a third staff position that this problem will be rectified.

Governance Communication

October 24, 2013

To: The North Dakota Beef Commission Board of Directors

The Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the North Dakota Beef Commission for the year ended June 30, 2013, and have issued our report thereon dated October 24, 2013. 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 24, 2013.

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. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the North Dakota Beef Commission.

The following presents our informal recommendation.

We recommend the North Dakota Beef Commission ensure all travel reimbursements have adequate supporting documentation.

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

Very truly yours,

Paul Welk

Paul Welk, CPA
Audit Manager