

NORTH DAKOTA
BARLEY COUNCIL

Fargo, ND

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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Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Barley Council

Steve Edwardson, North Dakota Barley Council Executive Administrator

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Barley Council for the two-year period ended June 30, 2012. The special-purpose financial statement is the responsibility of the management of the North Dakota Barley Council. Our responsibility is to express an opinion on the special-purpose financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, 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 special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the special-purpose financial statements are intended to present the revenues and expenditures of only that portion of the governmental activities of the state of North Dakota that is attributable to the transactions of the North Dakota Barley Council. They do not purport to, and do not, present fairly the financial position of the state of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

The accompanying special-purpose financial statement is prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Barley Council's operations in accordance with NDCC section 4-24-10. The revenues and expenditures are reported as discussed in the first note to the special-purpose financial statements. The special-purpose financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Barley Council for the two-year period ended June 30, 2012, in conformity with the basis of accounting described in Note 1 to the special-purpose financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012 on our consideration of the North Dakota Barley Council's internal control over financial reporting and 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 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.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, the Senate and House agriculture committees and management of the North Dakota Barley Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Bob Peterson", written in a cursive style.

Robert R. Peterson
State Auditor

December 14, 2012

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 Barley Council

Steve Edwardson, North Dakota Barley Council Executive Administrator

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Barley Council as of and for the two-year period ended June 30, 2012 and have issued our report thereon dated December 14, 2012. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and is not intended to be a presentation in conformity with generally accepted accounting principles. 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 Barley Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Barley Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the special-purpose financial statement, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Barley Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Barley Council's internal control over financial reporting.

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 North Dakota Barley Council's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of Findings, Recommendations, and Management's Responses that we consider to be significant deficiencies in internal control over financial reporting (Recommendations 12-1 thru 12-3). A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Barley Council's special-purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of special-purpose 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of Prior Recommendation not Implemented and Management's Response as Prior Recommendation 10-1.

We noted certain matters that we reported to management of the North Dakota Barley Council in a separate letter dated December 14, 2012 included in this report under Governance Communication.

This report is intended solely for the information and use of the North Dakota Barley Council, Legislative Audit and Fiscal Review Committee, and members of the North Dakota Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Robert R. Peterson
State Auditor

December 14, 2012

Special-Purpose Financial Statements

Detailed Comparative Statement of Revenues and Expenditures (Budgetary Basis)

North Dakota Barley Council

REVENUES:	Fiscal Year 2012	Fiscal Year 2011
Barley Assessments (net of refunds of \$36,757 and \$59,860)	\$ 537,117	\$ 987,365
Interest on Investments	6,117	10,296
Leases, Rents, and Royalties	4,500	7,500
Miscellaneous Revenue	1,505	2,376
Total Revenues	<u>\$ 549,239</u>	<u>\$ 1,007,536</u>
EXPENDITURES:		
Salaries and Benefits	\$ 192,545	\$ 184,855
Professional Development		
Conference Expenses	11,179	26,005
Dues & Memberships	115,449	160,838
Stipends	27,530	32,850
Sponsorships	100	
Grants, Benefits & Claims	219,602	178,659
Operating Fees and Services	27,441	22,802
Travel	106,682	109,809
Rentals/Leases - Bldg/Land	36,412	36,867
IT-Communications	7,108	7,228
Postage	3,918	3,632
Office Supplies	1,463	1,920
Printing	3,559	3,312
Miscellaneous Supplies	5,585	3,212
Office Equip & Furniture-Over \$5,000	-	12,050
Bldg, Grounds, Vehicle Supply	151	2,628
IT Contractual Services and Repairs	4,734	13,876
Fees - Professional Services	1,366	7,078
Insurance	892	1,278
Supply/Material-Professional	1,649	1,038
Supplies - IT Software	2,676	6,297
IT Equip under \$5,000	8,946	11,944
Repairs	194	
Total Expenditures	<u>\$ 779,180</u>	<u>\$ 828,177</u>
Revenue Over (Under) Expenditures	<u>\$ (229,941)</u>	<u>\$ 179,359</u>

See Notes to the Special-Purpose Financial Statements.

Notes to the Special-Purpose Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The North Dakota Barley Council was created by the 1983 Legislature through passage of the "Barley Industry Promotion Act" pursuant to Chapter 4-10.4 of the North Dakota Century Code (NDCC). Effective July 1, 2009 Chapter 4-10.4 of the NDCC was repealed and replaced by Chapter 4.1-02. Per Chapter 4.1-02 of the NDCC the duties of the North Dakota Barley Council include the funding of research, education programs, market development efforts and support of state, regional, national and international entities that promote barley utilization.

The Council is composed of one participating grower elected from each of the five districts established in Chapter 4.1-02 of the NDCC. North Dakota Century Code section 4.1-02-12 states an assessment at the rate of twenty mills per bushel is imposed on all barley grown in the state, delivered into the state, or sold to a first purchaser in the state. The assessment does not apply to barley grown by a producer and used by the producer as livestock feed. Per section 4.1-02-13 of the NDCC, the first purchaser shall collect the assessment from the seller by deducting the assessment from the total price of the barley being purchased by the first purchaser. The first purchaser shall keep documents regarding all purchases, sales, and shipments of barley for a period of three years, which may be examined by the North Dakota Barley Council at all reasonable times. No later than thirty days after the conclusion of each calendar quarter, each first purchaser shall file with the Council a report stating the quantity of all barley received, sold, or shipped by the first purchaser. Per section 4.1-02-19 of the NDCC, the Council shall forward all moneys received to the State Treasurer for deposit in the barley fund. All moneys in the barley fund are appropriated on a continuing basis.

B. Reporting Structure

The special-purpose financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 231, the Barley Fund. The detailed comparative schedule of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the statements of revenues and expenditures are principally reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types. Because of the unique nature of North Dakota's accounting system and its appropriation laws, there are at times differences between the way expenditures are appropriated and GAAP. These differences are discussed below.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within a year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principle and interest expenditures which are recorded when due; compensated absences which are recorded when paid; and, claims and judgments.

As stated above, there can be differences between revenues and expenditures reported on the state's accounting system and budget basis and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Basically there are two types of differences: accounting and statutory.

Accounting differences can include:

- A. Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply-back period.
- B. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- C. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

Statutory differences can occur because of North Dakota Century Code section 54-44.1-11. This section requires the Office of Management and Budget to cancel most unexpended appropriations 30 days after the end of each biennial period. Certain GAAP expenditures are not recorded as budgetary expenditures because the agency does not have the ability to pay the expenditures within 30 days after the end of the biennium. These are relatively rare occurrences, and when significant, will be clearly disclosed.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues, expenditures, and expenses would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures. This type of information is available in the state's comprehensive annual financial report and the Office of Management and Budget's combining statements by department.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the Council's operations. All revenues and expenditures are included regardless of the nature of the activities.

NOTE 2 – RELATED PARTIES

As noted in note one of these financial statements, the North Dakota Barley Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Barley Council made payments to North Dakota State University (NDSU), and the Northern Crops Institute (NCI). For fiscal year 2011, the Barley Council paid \$116,326 and \$10,000 for Barley research project contracts, respectively to NDSU and NCI, and for fiscal year 2012, the Barley Council paid \$161,589 and \$25,000 for Barley research project contracts, respectively to

NDSU and NCI. The Barley Council also has a particularly close working relationship with the North Dakota Grain Growers Association (NDGGA), the US Grains Council (USGC), and the National Barley Growers Association (NBGA). For fiscal year 2011, the Barley Council paid \$37,323, \$89,500, and \$39,753 for promotional marketing and development contracts, respectively to NDGGA, USGC, and NBGA. For fiscal year 2012, the Barley Council paid \$38,500, \$45,250, and \$37,779 for promotional marketing and development contracts, respectively to NDGGA, USGC, and NBGA.

NOTE 3 – OTHER SIGNIFICANT ITEMS

The North Dakota Barley Council has cash and investment reserves of \$1,194,118 and \$1,308,003 at June 30, 2012 and June 30, 2011, respectively. Based on the average monthly expenditures for fiscal year 2012 and 2011, this amount represents approximately 19 months of expenditures.

NOTE 4 – LEASE OBLIGATIONS

The North Dakota Barley Council has one operating lease for the rent of office space. Expenditures for the operating lease were \$35,912, for both fiscal years ended June 30, 2012 and 2011. Debt service requirements to maturity for operating lease obligations at June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2013	\$ 35,912

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?

Unqualified.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

No.

- Support and amount of travel expense payments did not consistently comply with Office of Management and Budget policies. For additional information, see the prior recommendation not implemented and management's response section of this report.
- The Barley Council did not conduct a fraud risk assessment as required by Office of Management and Budget policy. See findings, recommendations, and management's response section for additional information.

3. Was internal control adequate and functioning effectively?

No. There are opportunities for improving internal controls related to travel vouchers; approving, entering and coding expenditures; and segregation of duties. See the prior recommendation not implemented and management's response and findings, recommendations, and management's response sections of this report.

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

No.

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

No. The North Dakota Barley Council has not implemented the previous audit recommendation related to travel vouchers. For additional information, see the prior recommendation not implemented and management's response section of this report.

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

Yes. The Governance Communication section of this report contains an informal recommendation related to the use of the purchase card.

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.*

See Governance Communication section, page 14, for adjustments.

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 is the most high-risk information technology system critical to the operations of the state. No formal finding is directly related to the operations of the information technology system.

Prior Recommendation Not Implemented and Management's Response

TRAVEL VOUCHER REIMBURSEMENTS (PRIOR AUDIT RECOMMENDATION 10-1)

In the 2010 audit we recommended the North Dakota Barley Council improve procedures surrounding the payment of travel expenses, and proceed as follows:

- Recover the unsupported travel reimbursement payments;
- Require appropriately signed and timely submitted travel reimbursement requests;
- Follow OMB policies when reimbursing travel expenses; and
- Establish criteria for reimbursing group meals to include the purpose of the meal and the names of the participants.

Current Status:

Our current audit revealed:

- Unsupported travel reimbursement payments were not recovered.
- Travel reimbursements were initially completed on outdated voucher forms, where the rates for mileage, meals, hotel, and stipends were incorrectly calculated and totaled. These outdated forms, signed by the claimant only, were then given to the Administrative Assistant to reconstruct the travel expenses on a different form at the correct rates; the reconstructed travel voucher was not signed by the claimant nor was it reviewed, approved, and signed by the appropriate personnel. However, we did note that travel reimbursement requests were submitted timely.
- OMB policies were not followed when reimbursing travel expenses, noting several instances where the incorrect mileage rate was reimbursed, several miscellaneous receipts were missing, and meal quarter per diems claimed were not supported with the time departed and arrived.
- Criteria for reimbursing group meals has not yet been established, noting group meal reimbursements were reimbursed without documenting the names and number of attendees and the business purpose of the group meal.

North Dakota Barley Council's Response

- *Unsupported travel reimbursement payments were unable to be recovered since the recipients were former Council directors that no longer serve on the Barley Council Board of Directors, and no longer live in the area.*
- *The North Dakota Barley Council will, in cooperation with the Office of the State Auditor and OMB, implement a consistent process inclusive of forms that are appropriately authorized and contain the correct rates for meals, mileage, lodging, and per diem.*
- *The North Dakota Barley Council will follow OMB policies when reimbursing travel expenses.*
- *Group meals pertain to international trade teams. Names of participants and the business purpose (i. e. promotion of barley sales to international markets) will be included in the future.*

Findings, Recommendations, and Management's Response

FRAUD RISK ASSESSMENT (RECOMMENDATION 12-1)

The ND Barley Council has not performed a fraud risk assessment for each of their functions. Without performing a fraud risk assessment to identify and mitigate significant fraud and financial statement risks, the ND Barley Council exposes itself to a higher risk of: loss of assets, potential liabilities, misstated financial statements, noncompliance with laws and regulations and damage to the ND Barley Council's reputation; whether due to error or fraud.

The most important guidance relating to internal controls is contained in *Internal Control - Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, risk management, code of conduct, and fraud deterrence.

Office of Management and Budget, policy 216, also requires all agencies to complete a fraud risk assessment for their agency at least every biennium.

Recommendation:

We recommend the ND Barley Council:

1. Utilize the forms provided by OMB and complete a fraud risk assessment for each of their functions now at least every biennium thereafter.
2. Management enable proper mechanisms for areas deemed 'high risk' after completing the fraud risk assessment.

North Dakota Barley Council's Response:

The Barley Council, in cooperation with OMB, will complete the fraud risk assessment via utilization of forms provided by OMB.

ENTERING AND CODING EXPENDITURES (RECOMMENDATION 12-2)

We noted the following during our test of expenditures of the ND Barley Council:

- 31 out of 52 had a description entered in PeopleSoft in place of the invoice number;
- 8 out of 8 Barley Assessment Refunds were not properly approved; and
- 3 out of 52 were not coded properly.

Entering descriptions in place of correct invoice numbers into PeopleSoft and issuing Barley Assessment Refunds without proper approval, subject the ND Barley Council to a higher risk of duplicating payments to vendors, and/or making improper refunds whether due to error or fraud. By not ensuring that expenditures are properly coded, the ND Barley Council's increase the risk of material misstating financial statement at the account level.

Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), good monitoring controls over transaction control activities include a review for completeness, accuracy, and that they are being performed according to policy and procedures.

Recommendation:

We recommend:

- Invoice numbers are accurately entered into PeopleSoft, and a more detailed review of expenditures is conducted to ensure proper coding; and
- Proper personnel review and approve Barley Assessment Refunds.

North Dakota Barley Council's Response

1. *Invoice numbers will be referenced. The Barley Council has supporting documentation for payment of invoices, thus allowing the agency to reference the recipient and purpose of payment.*
2. *Revisions to coding will be reviewed. Coding can vary due to historic allocation as well as changes in opinion from the Auditor.*
3. *The barley assessment refund summary form has been revised to reflect review and approval of refunds. The Barley Council has utilized a consistent procedure for preparation and approval of refunds that has cleared prior audits.*

SEGREGATION OF DUTIES (RECOMMENDATION 12-3)

Inadequate segregation of duties exists within the following functions:

- Payables/expenditures, personnel that enter invoices for payment should not handle the printed checks (stuff and mail the checks).
- Preparation of payroll timesheets and the approval of payroll timesheets should be performed by different personnel.

Weakened internal controls and the lack of segregation of duties increase the risk of fraud and misstatement of the ND Barley Council's financial statements, whether due to error or fraud.

Proper internal controls surrounding payables/expenditures and preparation and approval of time sheets would require the duties be properly segregated among several different individuals. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The basic idea underlying segregation of duties is that no one employee or group of employees should be in a position both to perpetrate and conceal errors or irregularities in the normal course of their duties. In general, the principal incompatible duties to be segregated are: authorization, custody of assets, and recording or reporting of transactions.

Recommendation:

We recommend the ND Barley Council review employees' duties as related to payables/expenditures and payroll and redistribute the job duties to the greatest extent possible to reduce the potential risk of loss. If complete segregation of duties is not feasible, then proper compensating controls should be designed and implemented to mitigate the risk of loss.

North Dakota Barley Council's Response

1. *The North Dakota Barley Council has only two full time personnel and thus will review procedures necessary to complete the administration of payables/expenditures.*
2. *The Barley Council will review job functions related to payroll.*

Governance Communication

December 14, 2012

To: The North Dakota Barley Council

The Legislative Audit and Fiscal Review Committee

We have audited the special purpose financial statements of the governmental activities of the North Dakota Barley Council for the two-year period ended June 30, 2012, and have issued our report thereon dated December 14, 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 Barley Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies did not change during the two-year period ending June 30, 2012. 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. We included a copy of our known and likely misstatements with the management representation letter dated November 6, 2012. For a copy of the posted audit adjustments, see the following table.

Posted Audit Adjustments

Fiscal Year 2012

1	541010	Postage	\$ 800	
	462115	Postage		\$ 800
2	551005	IT-Equip under \$5,000	\$ 8,246	
	603005	IT-Contractual Services and Repairs		\$ 8,246

Fiscal Year 2011

3	551005	IT-Equip under \$5,000	\$ 2,373	
	603005	IT-Contractual Services and Repairs		\$ 2,373
4	201001	Accounts Payable	\$42,500	
	611010	Dues & Memberships		\$42,500

Audit adjustments 1–3 show the reclassification of expenditures, and audit adjustment 4 shows the reversal of a fiscal year 2011 expenditure that was accrued in fiscal year 2010 by the Office of the State Auditor in the amount of \$42,500.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 6, 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. 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 Barley Council.

The following presents our informal recommendation:

USAGE OF THE PURCHASE CARD (Informal 12-1)

The ND Barley Council is not utilizing the purchase card (P-card). Based on an analysis of expenditures during fiscal year 2011, we noted the ND Barley Council could have made 69 payments for purchases less than \$2,500 (totaling \$20,505) and 9 payments for purchases greater than \$2,500 (totaling \$147,047) by using the P-card. Administrative efficiency could be increased, check processing, and postage costs could be decreased by paying eligible expenditures with the P-card. Petty cash kept at the office could also be eliminated with the use of the P-card.

- OMB Purchasing Card Manual - denotes some of the benefits of using the P-card to include: 1) reducing administrative costs; 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 purchasing processing costs.
- National Association of Purchasing Card Professionals - estimates that P-cards can save 55% to 80% off the cost of a payment transaction.

We recommend the ND Barley Council:

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 so as to limit the need to reallocate P-card expenditures.

North Dakota Barley Council's Response:

The North Dakota Barley Council will implement a purchasing card with assistance from OMB.

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

Very truly yours,

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

Cory Wigdahl, CFE
Auditor In-charge

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