

NORTH DAKOTA  
BARLEY COUNCIL

Fargo, North Dakota

**Audit Report**

For the Two-Year Period Ended  
June 30, 2014

**ROBERT R. PETERSON  
STATE AUDITOR**

Office of the State Auditor  
Division of State Audit

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# *Independent Auditor's Report*

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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 accompanying Comparative Statement of Revenues and Expenditures of the North Dakota Barley Council Fund of the state of North Dakota, for the years ended June 30, 2014, and 2013 and the related notes as listed in the table of contents.

## ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

## ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statement referred to above present fairly, in all material respects, the revenues and expenditures of the North Dakota Barley Council Fund, for the years ending June 30, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matters***

As discussed in Note 1, the financial statement presents only the North Dakota Barley Council Fund's revenues and expenditures, and do not purport to, and do not present fairly the financial position of the state of North Dakota for the years ending June 30, 2014 or 2013, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statement is presented and audited in accordance with North Dakota Century Code 4-24-10. This financial statement is not intended to be a complete presentation of the North Dakota Barley Council Fund's assets and liabilities. Our opinion is not modified with respect to this matter.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the North Dakota Barley Council'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 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 Barley Council's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

Fargo, North Dakota

November 14, 2014

***Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of a Financial Statement Performed in  
Accordance with Government Auditing Standards***

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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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the North Dakota Barley Council, for the years ended June 30, 2014, and 2013, and the related notes to the financial statement and have issued our report thereon dated November 14, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Dakota Barley Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Barley Council's internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Barley Council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control over financial reporting, described in the accompanying schedule of Findings, Recommendations, and Management's Response that we consider to be a significant deficiency in internal control over financial reporting (Recommendation 14-1).

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Dakota Barley Council's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the North Dakota Barley Council in a letter dated November 14, 2014.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson  
State Auditor

Fargo, North Dakota

November 14, 2014

## Comparative Statement of Revenues and Expenditures

**For Fiscal Ended June 30**

REVENUES:	2014	2013
Barley Assessments (net of refunds of \$28,827 and \$39,043)	\$ 772,222	\$ 920,232
Interest on Investments	3,458	4,029
Leases, Rents, and Royalties	3,750	7,500
Miscellaneous Revenue	677	886
Total Revenues	<u>\$ 780,107</u>	<u>\$ 932,647</u>
EXPENDITURES:		
Salaries and Benefits	\$ 203,228	\$ 224,889
Professional Development		
Conference Expenses	11,540	15,548
Dues & Memberships	112,978	72,149
Sponsorships	350	100
Grants, Benefits & Claims	202,378	203,672
Operating Fees and Services	16,449	19,777
Travel	78,876	83,390
Rentals/Leases - Bldg/Land	22,852	36,412
IT-Communications	6,760	5,295
Postage	3,883	2,719
Office Supplies	1,390	867
Printing	2,233	2,663
Miscellaneous Supplies	850	6,743
Office Equip & Furniture-Over \$5,000	114	-
Bldg, Grounds, Vehicle Supply	999	557
IT Contractual Services and Repairs	7,542	4,842
Fees - Professional Services	1,957	7,118
Insurance	910	903
Supply/Material-Professional	2,581	2,248
Other Equip under \$5,000	2,574	-
Supplies - IT Software	1,251	2,504
IT Equip under \$5,000	5,350	220
Total Expenditures	<u>\$ 687,045</u>	<u>\$ 692,616</u>
Revenue Over (Under) Expenditures	<u>\$ 93,062</u>	<u>\$ 240,031</u>

See Notes to the Comparative Statement of Revenues and Expenditures.



# **Notes to the Comparative Statement of Revenues and Expenditures**

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

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

### **C. Basis of Presentation**

North Dakota Century Code 4-24-10 requires certain commodity promotion groups to prepare a report for the legislative assembly. As part of this report the applicable commodity groups are required to prepare a single-page uniform statement of revenues and expenditures.

Revenues and expenditures on the comparative statement of revenues and expenditures are reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types.

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

#### **D. GAAP Reporting Differences**

GAAP financial statements would include a balance sheet. GAAP financial statements would also provide additional note disclosures.

#### **NOTE 2 – RELATED PARTIES**

As noted in note one of these financial statements, the Council is an agency of the state of North Dakota; as such, other agencies of the state are related parties. The Council made payments to North Dakota State University (NDSU), and the Northern Crops Institute (NCI). For fiscal year 2013, the Council paid \$84,504 and \$22,500 for Barley research project contracts, respectively to NDSU and NCI, and for fiscal year 2014, the Council paid \$103,931 and \$30,000 for Barley research project contracts, respectively to NDSU and NCI. The 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 2013, the Barley Council paid \$64,500, \$49,195, and \$31,564 for promotional marketing and development contracts, respectively to NDGGA, USGC, and NBGA. For fiscal year 2014, the Council paid \$62,500, \$34,075, and \$56,591 for promotional marketing and development contracts, respectively to NDGGA, USGC, and NBGA.

#### **NOTE 3 – OTHER SIGNIFICANT ITEMS**

The Council has cash and investment reserves of \$1,377,386 and \$1,386,121 at June 30, 2014 and June 30, 2013, respectively. Based on the average monthly expenditures for fiscal year 2014 and 2013, this amount represents approximately 24 months of expenditures.

## *Supplementary Information*

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### **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. There are opportunities for improving internal controls related to segregation of duties. See the findings, recommendations, and management's response section 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?*

Yes.

- 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 two informal recommendations related to classification of Board Member compensation and the use of a lockbox.

## **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 13, 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.

## **Findings, Recommendations, and Management's Response**

### **INADEQUATE SEGREGATION OF DUTIES (RECOMMENDATION 14-1)**

The Council only has one employee responsible for accounting functions. Inadequate segregation of duties exists as one employee is responsible to collect monies, prepare deposits, prepare and review timesheets, submit vouchers for payment, approve vouchers for payment, review the vendor check listing, mail the vendor check, and prepare and review annual closing packages.

The risk of fraud and misstatement of the Council's financial statements increases with weakened internal controls and inadequate segregation of duties, whether due to error or fraud.

The Council has limited resources and only has one staff member, making it economically unfeasible to hire additional staff to properly distribute job duties.

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

Due to the size, complexity, and the economic realities of the Council, it is presently not feasible to obtain adequate segregation of duties.

We recommend:

- If it becomes feasible to segregate duties in the future, duties are segregated to the extent possible to reduce the potential risk of loss, and
- The North Dakota Barley Council Board Members remain involved in the financial affairs of the council.

#### ***North Dakota Barley Council's Response:***

*Agreed. The North Dakota Barley Council will: 1) continue to engage the board of directors in the financial affairs of council (i.e. reviewing revenues and expenditures, etc.); 2) utilize OMB to depositing revenues and prepare vouchers for payment; 3) segregate duties in the future as feasibility allows.*

## **Governance Communication**

November 14, 2014

To: The North Dakota Barley Council

The Legislative Audit and Fiscal Review Committee

We have audited the comparative financial statement of revenues and expenditures of the North Dakota Barley Council Fund of the state of North Dakota for the years ending June 30, 2014, and 2013, and have issued our report thereon dated November 14, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 20, 2014. Professional standards also require that we communicate to you 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 Council are described in Note 1 to the comparative statement of revenues and expenditures. No new accounting policies were adopted and the application of existing policies did not change during the years ending June 30, 2014, and 2013. 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 comparative statement of revenues and expenditures 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. Management has corrected all such misstatements. The schedule on the following page lists material misstatements detected as a result of audit procedures were corrected by management.

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**Posted Audit Adjustments**

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**Fiscal Year 2014**

1	511005 Salaries	\$23,320	
	611025 Stipends		\$23,320

**Fiscal Year 2013**

2	511005 Salaries	\$28,080	
	611025 Stipends		\$28,080

Audit adjustments 1 and 2 show the reclassification of Board Member compensation.

**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 27, 2014.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The following presents our informal recommendations:

## **CLASSIFICATION OF BOARD MEMBER COMPENSATION (Informal 14-1)**

North Dakota Barley Council Board Members are classed as independent contractors rather than as employees; thus compensation paid to the North Dakota Barley Council Board Members was not processed through payroll. Board Member compensation was coded to Stipends (611025) rather than Salaries (511005). Board Member compensation was \$23,320 for fiscal year 2013; \$28,080 for fiscal year 2014; totaling \$51,400.

Non-compliance with OMB policy 101, potential IRS implications and misstated financial statements.

We were told that some North Dakota Barley Council Board Members did not want to receive two separate checks – one for compensation and the second for travel reimbursements. It was also stated that some board members did not want to disclose their bank account information for direct deposit.

### **OMB Fiscal Administrative Policy 101:**

*The State of North Dakota is required by law to withhold payroll taxes on compensation paid where an employer-employee relationship exists. This precludes making payments to individuals from operating expenses where there is an employer-employee relationship.*

*The Internal Revenue Service uses many factors to distinguish independents or independent contractors from employees. Factors such as control over method of doing work, training of new employees, place where work is done, determination of hours, source of tools and supplies, etc., are used as qualification criteria. The approach taken by the IRS varies greatly from job to job, agent to agent, and year to year.*

*The following minimum guidelines should be used to determine whether an individual should be classified as an employee or as an independent contractor as described in the internal revenue code:*

*Generally, there is an employer-employee relationship when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work, but also as to the details and means by which the result is accomplished. The employer does not have to actually direct or control the way the services are performed; it is enough if he has the right to do so. The following factors are also important in determining whether a person is an employer: right to discharge; furnishing of tools; furnishing a place to work. If the employer-employee relationship in fact exists it does not matter that the employee is called an independent contractor. Substitutes who are properly working in place of regular employees are considered employees for purposes of withholding.*

### **IRS Publication 963, chapter 4, in part states:**

#### **Classification Issues Involving Government Employee**

*The following discussion addresses some special worker classification situations involving governmental employees.*



### **Public Officials**

The term "public official" refers to someone who has authority to exercise the power of the government and does so as an agent and employee of the government. The Internal Revenue Code does not define the term "public official," but Regulation §1.1402(c)-2(b), explaining the applicability of self-employment tax, indicates that holders of "public office" are not in a trade or business and are therefore not subject to self-employment tax. If self-employment tax is not applicable to the services, these individuals are employees. This Regulation states that the performance of the functions of a public office does not constitute a trade or business. An exception applies for certain public officials paid solely on a fee basis (see Chapter 5). Otherwise holders of public office are excepted from self-employment tax and are presumed to be employees receiving wages. The regulations give the following specific examples of positions that constitute "public office":

- Governor
- Mayor
- Member of a legislature or elected representative (e.g., elective office)
- County commissioner
- State or local judge, or justice of the peace
- County or city attorney, marshal, sheriff, constable
- Registrar of deeds
- Tax collector or tax assessor
- Road commissioners
- Members of boards and commissions, such as school boards, utility districts, zoning boards, and boards of health

### **Elected Officials**

Under section 3401, elected officials are employees for income tax withholding purposes.

For social security and Medicare purposes, elected officials (also referred to as "individuals in elective positions"), are subject to a degree of control that typically makes them employees under the common law, and therefore subject to these taxes. Elected officials are responsible to the public, which has the power to vote them out of office. Elected officials may also be subject to recall by the public or a superior official. Very few elected officials have sufficient independence to be considered independent contractors. Regardless of any determination for social security and Medicare purposes, elected officials are employees for income tax withholding purposes.

### **Recommendation:**

We recommend the North Dakota Barley Council work with OMB to properly set up the Board Members as employees to have their compensation processed through payroll to comply with OMB policy, IRS rules, and to ensure proper financial statement presentation.

### **North Dakota Barley Council's Response:**

*Disagree. Council directors: 1) pay taxes on their stipends when income is reported via a 1099; and 2) retain tax accountants to assist in complying with IRS regulations. The Council will continue with its current procedures for stipends.*

### **Auditor Concluding Remarks:**

*We conclude the North Dakota Barley Council Board Members are misclassified as independent contractors rather than as employees - making the North Dakota Barley Council in noncompliance with OMB policy and IRS regulations. We encourage the North Dakota Barley Council to contact OMB to properly setup their Board Members as employees.*

## **USE OF A LOCKBOX (Informal 14-2)**

Because of its small size, it is not feasible for the North Dakota Barley Council to have adequate segregation of duties surrounding the receipting process. A lockbox service could alleviate some of the inadequate segregation of duties. The Barley Council does not currently use a lockbox service for their quarterly assessments.

There is an increased potential for loss to occur when there are inadequate segregation of duties surrounding cash collections, whether due to error or fraud.

The North Dakota Barley Council is unfamiliar with the process and are not sure how good/efficient it would be for them.

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework: Proper design and implementation of internal control policies and procedures for performance measures, segregation of duties, approval, monitoring, and verification methods are necessary to ensure objectives are effectively achieved.

### **Recommendation:**

We recommend the North Dakota Barley Council use a lockbox service for their quarterly assessments to strengthen controls over the receipting process and thereby reducing the risk of loss due to the current lack of segregation of duties.

### ***North Dakota Barley Council's Response:***

*Disagree. The Council has established procedures for receiving assessments. Council directors regularly review deposits in detail. A lock box will not be utilized because: 1) it creates additional administration for grain buyers in that buyers would send assessments to one location and remittance forms to the Council; 2) separating checks from remittance forms increases risk of losing checks; 3) errors in items 1 and 2 will cause unnecessary administrative burden on the Council in securing and documenting assessments; 4) using a lock box adds steps that reduce efficiency and potentially increase risk.*

### ***Auditor Concluding Remarks:***

*We conclude that the North Dakota Barley Council is unfamiliar with the lockbox process and may not fully understand its efficiencies. A lockbox utilizes only a single address and both the assessment checks and forms would be mailed to this single address. The Bank of North Dakota (BND) deposits the funds and sends the owner of the lockbox a detailed check listing of the deposit made and all other items that were received (i.e. an assessment form). This would alleviate the North Dakota Barley Council from having to prepare and send their deposits to OMB for processing. We encourage the North Dakota Barley Council to contact BND to clarify the details.*

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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