



Financial Statements
June 30, 2013 and 2012

Office of the State Auditor

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**TABLE OF CONTENTS
June 30, 2013 and 2012**

	<u>Page No.</u>
FINANCIAL SECTION:	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Agency-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Governmental Fund Financial Statements	
Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Notes to the Financial Statements	16
Required Supplementary Information	
Budgetary Comparison Schedule – General and Special Revenue Funds	25
Other Reports	
Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	26
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Schedule of Findings and Responses	31



Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the Office of the State Auditor, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Office of the State Auditor's basic 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 audits. We conducted our audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, and the aggregate remaining fund information of the Office of the State Auditor as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Office of the State Auditor are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Office of the State Auditor. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2013 and 2012, and 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 4-8 and 25, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Statement of Appropriations and Expenditures and the Schedule of Expenditures by Object are the responsibility of management and were derived from and relate 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 basic 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 basic 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 Statement of Appropriations and Expenditures and the Schedule of Expenditures by Object are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013 on our consideration of the Office of the State Auditor'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 Office of the State Auditor's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
December 3, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Office of the State Auditor's (Office) financial report presents a discussion and analysis of the Office's financial performance, providing an overview of the activities for the biennium ended June 30, 2013. Please read it with the Office's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Agency-wide:

The liabilities of the Office exceeded its assets (reported as net position) at June 30, 2013 and 2012 by \$195,726 and \$162,369, respectively. The June 30, 2013 net position decreased \$33,357 from the previous fiscal year-end and the June 30, 2012 net position decreased \$58,911 from the previous fiscal year-end.

Fund Level:

At the close of fiscal years 2013 and 2012, the Office's governmental funds reported combined ending fund balances of \$205,409 and \$215,585, respectively. The June 30, 2013 fund balance decreased \$10,176 over the previous fiscal year-end and the June 30, 2012 fund balance decreased \$59,318 over the previous fiscal year-end.

Long-term Debt:

The Office's long-term debt (compensated absences due in more than one year) at June 30, 2013 and 2012 was \$387,131 and \$363,755, respectively. The June 30, 2013 balance increased \$23,376 over the previous fiscal year-end and the June 30, 2012 balance decreased \$701 over the previous fiscal year-end.

More detailed information regarding these activities and funds is included in the notes to the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Office's basic financial statements, which consists of three components: 1) agency-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Agency-wide Statements

The agency-wide financial statements provide a broad view of the Office's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Office's financial position, which assists in assessing the Office's economic condition at the end of each fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents all of the Office's assets and liabilities, with the difference between the two reported as "net position." Over time, increases and decreases in net position are an indicator of whether the Office's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both statements report governmental activities. The activities in this section are primarily supported by general fund appropriations, charges for services, and intergovernmental revenue.

The agency-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts the Office uses to track specific sources of funding and spending for a particular purpose. The Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The basic fund financial statements begin immediately after the agency-wide statements and provide more detail about the major individual funds. The Office's funds are all governmental funds.

Governmental funds – all of the Office's basic services are reported in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the agency-wide financial statements. However, unlike the agency-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of spendable resources. They also focus on the balances left at year-end that are available for future spending. Such information may be useful in evaluating whether there are more or less financial resources that can be spent in the near future to finance the Office's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of governmental funds is narrower than agency-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the agency-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

Governmental funds include the general fund and special revenue funds. The Office has four governmental funds, of which three are considered major individual funds. Those three are the General Fund, Federal Fund, and the Operating Fund. Each of these major funds is presented in a separate column in the governmental fund balance sheet, and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The remaining governmental fund (Conference Fund) is shown in a separate column on the basic fund statements.

Notes to the Financial Statements

The Notes provide additional information that is essential to a full understanding of the data provided in the agency-wide and the fund financial statements. The Notes to the Financial Statements can be found immediately following the statement of revenues, expenditures, and changes in fund balances.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section consists of a budgetary comparison schedule, which includes reconciliations between budgetary inflows and outflows and GAAP revenues and expenditures, as presented in the governmental fund statement of revenues, expenditures, and changes in fund balances.

FINANCIAL ANALYSIS OF THE OFFICE AS A WHOLE

As noted previously, net position may serve over time as a useful indicator of an Office's financial position. The Office's net position totaled \$(195,726), \$(162,369), and \$(103,458) at the end of fiscal years 2013, 2012, and 2011, respectively.

	Net Position		
	Governmental Activities		
	2013	2012	2011
Current and Other Assets	\$ 1,183,182	\$ 1,056,153	\$ 847,777
Capital Assets	1,800	1,800	1,800
Total Assets	<u>\$ 1,184,982</u>	<u>\$ 1,057,953</u>	<u>\$ 849,577</u>
Long-Term Liabilities Outstanding	\$ 387,131	\$ 363,755	\$ 364,456
Other Liabilities	993,577	856,567	588,579
Total Liabilities	<u>\$ 1,380,708</u>	<u>\$ 1,220,322</u>	<u>\$ 953,035</u>
Net Position			
Net Investment in Capital Assets	\$ 1,800	\$ 1,800	\$ 1,800
Unrestricted	(197,526)	(164,169)	(105,258)
Total Net Position	<u>\$ (195,726)</u>	<u>\$ (162,369)</u>	<u>\$ (103,458)</u>

The Office's net investment in capital assets represents a copy machine which is fully depreciated.

The following condensed financial information was derived from the agency-wide Statement of Activities and reflects how the Office's net position changed during each fiscal year:

Changes in Net Position			
	Governmental Activities		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Program Revenues:			
Charges for Services	\$ 1,577,903	\$ 1,133,728	\$ 1,370,623
Operating Grants	497,694	427,298	400,532
Total Revenues	<u>\$ 2,075,597</u>	<u>\$ 1,561,026</u>	<u>\$ 1,771,155</u>
Expenses:			
Administration	\$ 197,069	\$ 188,374	\$ 197,634
State Agency Audits	3,475,069	3,279,824	3,166,093
Mineral Royalty Audits	500,145	427,259	402,009
Local Government Audits	659,965	638,657	574,671
Conferences	4,015	17,035	11,400
Total Expenses	<u>\$ 4,836,263</u>	<u>\$ 4,551,149</u>	<u>\$ 4,351,807</u>
Decrease in Net Position Before Transfers	\$ (2,760,666)	\$ (2,990,123)	\$ (2,580,652)
Transfers	<u>2,727,309</u>	<u>2,931,212</u>	<u>2,533,425</u>
Increase (Decrease) in Net Position	<u>\$ (33,357)</u>	<u>\$ (58,911)</u>	<u>\$ (47,227)</u>
Net Position - Beginning	<u>(162,369)</u>	<u>(103,458)</u>	<u>(56,231)</u>
Net Position - Ending	<u><u>\$ (195,726)</u></u>	<u><u>\$ (162,369)</u></u>	<u><u>\$ (103,458)</u></u>

Revenues increased in fiscal year 2013 over fiscal year 2012 due to a significant increase in charges for services in the State Agency Audit Division. Expenses remained fairly consistent between fiscal years.

FINANCIAL ANALYSIS OF THE OFFICE'S FUNDS

Governmental Funds

At June 30, 2013 and 2012, the Office reported combined fund balances of \$205,409 and \$215,585, respectively. The June 30, 2013 fund balance decreased \$10,176 over the previous fiscal year-end. The June 30, 2012 fund balance decreased \$59,318 over the previous fiscal year-end due to a decrease in Local Government Audit Division revenue over the previous fiscal year.

General Fund Budgetary Highlights

The Office has a biennial appropriated budget. The difference between the original budget and the final budget was the result of Senate Bill 2015 of the 62nd Legislative Assembly, which allowed the Human Resources Division of the Office of Management and Budget to transfer money to eligible agencies from the state internship program line. The Office received an increase of \$1,320 to the Salaries and Wages line under this program.

There were no expenditures in excess of budgeted amounts in any of the appropriation line items.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: at the end of the fiscal years 2013 and 2012, the capital assets consist of a copy machine with a depreciated value of \$1,800.

Long-term Debt: at the end of fiscal years 2013 and 2012, the Office had \$387,131 and \$363,755, respectively, of long-term debt (due in more than one year), which consists of the liability for compensated absences which is payable in future years. More detailed information regarding the Office's long-term obligations are presented in the notes to the financial statements.

CONTACTING THE OFFICE OF THE STATE AUDITOR

This financial report is designed to provide citizens and taxpayers with a general overview of the Office of the State Auditor's finances and to demonstrate the Office's accountability for the money it receives. Questions about this report or additional financial information should be addressed to the Office of the State Auditor, 600 E. Boulevard Ave. - Dept. 117, Bismarck, ND 58505.

OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota

STATEMENT OF NET POSITION
June 30, 2013 and 2012

	Governmental Activities	
	2013	2012
ASSETS		
Cash	\$ 106,394	\$ 152,457
Interest Receivable	4	10
Due from Local Governments	168,442	136,547
Due from Federal Government	141,879	107,544
Due from Other State Agencies	342,192	354,837
Due from State General Fund	424,271	304,758
Equipment - Net	1,800	1,800
Total Assets	<u>\$ 1,184,982</u>	<u>\$ 1,057,953</u>
LIABILITIES		
Accrued Payroll	\$ 483,175	\$ 359,291
Accounts Payable	50,586	46,200
Due to Other State Agencies	7,232	10,151
Due to State General Fund	436,780	424,926
Compensated Absences:		
Due within one year	15,804	15,999
Due in more than one year	387,131	363,755
Total Liabilities	<u>\$ 1,380,708</u>	<u>\$ 1,220,322</u>
NET POSITION		
Net Investment in Capital Assets	\$ 1,800	\$ 1,800
Unrestricted	(197,526)	(164,169)
Total Net Position	<u>\$ (195,726)</u>	<u>\$ (162,369)</u>

OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants	Change in Net
				Position
				Governmental
				Activities
Governmental Activities:				
Administration	\$ 197,069			\$ (197,069)
State Agency Audits	3,475,069	\$ 926,910		(2,548,159)
Mineral Royalty Audits	500,145		\$ 497,694	(2,451)
Local Government Audits	659,965	644,993		(14,972)
Conferences	4,015	6,000		1,985
Total	<u>\$ 4,836,263</u>	<u>\$ 1,577,903</u>	<u>\$ 497,694</u>	<u>\$ (2,760,666)</u>
General Revenues:				
Transfers				<u>\$ 2,727,309</u>
Change in Net Position				\$ (33,357)
Net Position, Beginning of Year				(162,369)
Net Position, End of Year				<u>\$ (195,726)</u>

OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
		Services	Grants	Change in Net
				Position
				Governmental
				Activities
Governmental Activities:				
Administration	\$ 188,374			\$ (188,374)
State Agency Audits	3,279,824	\$ 537,305		(2,742,519)
Mineral Royalty Audits	427,259		\$ 427,298	39
Local Government Audits	638,657	575,673		(62,984)
Conferences	17,035	20,750		3,715
Total	<u>\$ 4,551,149</u>	<u>\$ 1,133,728</u>	<u>\$ 427,298</u>	<u>\$ (2,990,123)</u>
General Revenues:				
Transfers				<u>\$ 2,931,212</u>
Change in Net Position				\$ (58,911)
Net Position, Beginning of Year				(103,458)
Net Position, End of Year				<u>\$ (162,369)</u>

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**BALANCE SHEET
Governmental Funds
June 30, 2013**

	General	Federal	Operating Fund	Other Governmental Funds	Total
ASSETS					
Cash			\$ 100,694	\$ 5,700	\$ 106,394
Interest Receivable			4		4
Due from Local Governments			168,442		168,442
Due from Federal Government		\$ 141,879			141,879
Due from Other State Agencies	\$ 342,192				342,192
Due from State General Fund	424,271				424,271
Total Assets	\$ 766,463	\$ 141,879	\$ 269,140	\$ 5,700	\$ 1,183,182
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued Payroll	\$ 369,777	\$ 46,782	\$ 66,616		\$ 483,175
Accounts Payable	49,473		1,113		50,586
Due to Other State Agencies	5,021	509	1,702		7,232
Due to State General Fund	342,192	94,588			436,780
Total Liabilities	\$ 766,463	\$ 141,879	\$ 69,431	\$ -	\$ 977,773
Fund Balances:					
Committed			\$ 199,709		\$ 199,709
Assigned				\$ 5,700	5,700
Total Fund Balances	\$ -	\$ -	\$ 199,709	\$ 5,700	\$ 205,409
Total Liabilities and Fund Balances	\$ 766,463	\$ 141,879	\$ 269,140	\$ 5,700	\$ 1,183,182

Total Fund Balances - Governmental Funds **\$ 205,409**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$10,450 and the accumulated depreciation is \$8,650. 1,800

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of compensated absences of \$402,935. (402,935)

Net Position of Governmental Activities **\$ (195,726)**

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**BALANCE SHEET
Governmental Funds
June 30, 2012**

	General	Federal	Operating Fund	Other Governmental Funds	Total
ASSETS					
Cash			\$ 140,739	\$ 11,718	\$ 152,457
Interest Receivable			10		10
Due from Local Governments			136,547		136,547
Due from Federal Government		\$ 107,544			107,544
Due from Other State Agencies	\$ 353,737			1,100	354,837
Due from State General Fund	304,758				304,758
Total Assets	\$ 658,495	\$ 107,544	\$ 277,296	\$ 12,818	\$ 1,056,153
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued Payroll	\$ 262,107	\$ 35,872	\$ 61,312		\$ 359,291
Accounts Payable	37,254		825	\$ 8,121	46,200
Due to Other State Agencies	5,397	483	3,289	982	10,151
Due to State General Fund	353,737	71,189			424,926
Total Liabilities	\$ 658,495	\$ 107,544	\$ 65,426	\$ 9,103	\$ 840,568
Fund Balances:					
Committed			\$ 211,870		\$ 211,870
Assigned				\$ 3,715	3,715
Total Fund Balances	\$ -	\$ -	\$ 211,870	\$ 3,715	\$ 215,585
Total Liabilities and Fund Balances	\$ 658,495	\$ 107,544	\$ 277,296	\$ 12,818	\$ 1,056,153

Total Fund Balances - Governmental Funds **\$ 215,585**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$10,450 and the accumulated depreciation is \$8,650. 1,800

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Those liabilities consist of compensated absences of \$379,754. (379,754)

Net Position of Governmental Activities **\$ (162,369)**

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2013**

	General	Federal	Operating Fund	Other Governmental Funds	Total
REVENUES					
Intergovernmental		\$ 497,694			\$ 497,694
Charges for Services	\$ 926,910		\$ 644,930		1,571,840
Conference Registration Fees				\$ 6,000	6,000
Miscellaneous			63		63
Total Revenues	\$ 926,910	\$ 497,694	\$ 644,993	\$ 6,000	\$ 2,075,597
EXPENDITURES					
Current:					
Administration	\$ 197,069				\$ 197,069
State Audits	3,457,150				3,457,150
Mineral Royalty Audits		\$ 497,694			497,694
Local Government Audits			\$ 657,154		657,154
Conference Expenses				\$ 4,015	4,015
Total Expenditures	\$ 3,654,219	\$ 497,694	\$ 657,154	\$ 4,015	\$ 4,813,082
Revenues over (under) expenditures	\$ (2,727,309)		\$ (12,161)	\$ 1,985	\$ (2,737,485)
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 3,654,219				3,654,219
Transfers Out	(926,910)				(926,910)
Total Other Financing Sources (Uses)	\$ 2,727,309				\$ 2,727,309
Net Change in Fund Balances			\$ (12,161)	\$ 1,985	\$ (10,176)
Fund Balances - Beginning of Year			211,870	3715	215,585
Fund Balances - End of Year			\$ 199,709	\$ 5,700	\$ 205,409

Net Change in Fund Balances - Total Governmental Funds \$ (10,176)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of an increase in compensated absences.

\$ (23,181)

Change in Net Position of Governmental Activities

\$ (33,357)

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2012**

	General	Federal	Operating Fund	Other Governmental Funds	Total
REVENUES					
Intergovernmental		\$ 427,298			\$ 427,298
Charges for Services	\$ 537,183		\$ 575,506		1,112,689
Conference Registration Fees				\$ 20,750	20,750
Miscellaneous	122		167		289
Total Revenues	\$ 537,305	\$ 427,298	\$ 575,673	\$ 20,750	\$ 1,561,026
EXPENDITURES					
Current:					
Administration	\$ 188,374				\$ 188,374
State Audits	3,280,143				3,280,143
Mineral Royalty Audits		\$ 427,298			427,298
Local Government Audits			\$ 638,706		638,706
Conference Expenses				\$ 17,035	17,035
Total Expenditures	\$ 3,468,517	\$ 427,298	\$ 638,706	\$ 17,035	\$ 4,551,556
Revenues over (under) expenditures	\$ (2,931,212)		\$ (63,033)	\$ 3,715	\$ (2,990,530)
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 3,468,517				3,468,517
Transfers Out	(537,305)				(537,305)
Total Other Financing Sources (Uses)	\$ 2,931,212				\$ 2,931,212
Net Change in Fund Balances			\$ (63,033)	\$ 3,715	\$ (59,318)
Fund Balances - Beginning of Year			274,903		274,903
Fund Balances - End of Year			\$ 211,870	\$ 3,715	\$ 215,585

Net Change in Fund Balances - Total Governmental Funds \$ (59,318)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of a decrease in compensated absences.

\$ 407

Change in Net Position of Governmental Activities

\$ (58,911)

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL STATEMENTS AND REPORTING ENTITY

The accompanying financial statements of the Office of the State Auditor 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.

For financial reporting purposes, the Office of the State Auditor has included all funds and has considered all potential component units for which the Office of the State Auditor is financially accountable, and other organizations for which the nature and significance of their relationship with the Office of the State Auditor are such that exclusion would cause the Office of the State Auditor's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Office of the State Auditor to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Office of the State Auditor.

Based upon these criteria, there are no component units to be included within the Office of the State Auditor as a reporting entity and the Office of the State Auditor is an agency within the State of North Dakota as a reporting entity.

B. AGENCY-WIDE AND FUND FINANCIAL STATEMENTS

AGENCY-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities report information on all activities of the Office of the State Auditor. Governmental activities generally are financed through intergovernmental revenues and other non-exchange revenues.

The Statement of Net Position presents the reporting entity's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net Investment in capital assets consists of a capital asset, net of accumulated depreciation.

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Net position restricted by enabling legislation is subject to change by a majority vote of the Legislative Assembly.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate management does not consider it to be available for general operations. Unrestricted net position often has constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function.

FUND FINANCIAL STATEMENTS

Major individual governmental funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The agency-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The Office of the State Auditor follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as 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.

Major revenues that are determined to be susceptible to accrual include federal grants and audit fees. All revenues are determined to be available if collected within one year of fiscal year-end. Revenues earned under the terms of reimbursement agreements with other governments are recorded at the time the related expenditures are made if other eligibility requirements have been met.

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

FINANCIAL STATEMENT PRESENTATION

The Office of the State Auditor reports the following major governmental funds:

The general fund is the principal operating fund of the agency. It is used to account for all financial resources that are not accounted for in other funds. Included are transactions involving administration and state agency audits.

The federal fund accounts for all the financial resources from the federal government, which finances the Mineral Royalty Audit Division.

The operating fund accounts for all activities of the Local Government Audit Division.

D. GENERAL BUDGETARY POLICIES AND PROCEDURES

The Office of the State Auditor operates through a biennial appropriation provided by the State Legislature. The Office prepares a biennial budget, which is included in the Governor's budget presented to the Legislative Assembly at the beginning of each legislative session. The Legislative Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. The Governor has line item veto powers over all legislation subject to legislative override.

Once passed and signed, the appropriation bill becomes the department's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, referendum, or allotment action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. Unexpended appropriations lapse at the end of each biennium.

The biennial budget is prepared primarily on a cash basis. Encumbrance accounting is not used. The legal level of budgetary control is at the funding source and expenditure line item level. Revenues are not formally budgeted and expenditures are not budgeted by fund. The agency appropriation is defined through the use of specific expenditure line items.

E. CASH

Cash consists of money on deposit with the State Treasurer.

F. RECEIVABLES

Receivables include amounts "due from other state agencies" (state agency audits) and "due from local governments" (local government audits) for audits performed during the year.

G. DUE FROM FEDERAL GOVERNMENT

The Office of the State Auditor has a contract with the United States Department of the Interior - Minerals Management Service for audit and related investigations of federal oil and gas leases located in the state of North Dakota. It is the Office of the State Auditor's policy to recognize federal revenue as allowable expenditures are incurred. Due from federal government represents amounts receivable for reimbursable expenditures incurred by June 30.

H. TRANSFERS

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. "Transfers In" consists of transfers from the state's general fund and "Transfers Out" consists of transfers to the state's general fund.

I. CAPITAL ASSETS

Capital assets are valued at historical cost. Capital assets with an original cost of \$5,000 or more and an estimated useful life in excess of one year are capitalized and reported in the applicable governmental column in the agency-wide financial statements. Capital asset costs include the purchase price, plus the costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Capital assets in governmental funds are recorded as expenditures in the funds used to acquire them in the governmental fund financial statements. Capital assets, along with accumulated depreciation and depreciation expense, are reported in the applicable governmental activities column in the agency-wide financial statements.

Capital assets are depreciated using the straight-line method over their estimated useful lives of 3-10 years.

J. LEASE COMMITMENTS

The Office of the State Auditor leases office space. Leases are classified according to FASB 13. The leases all have funding clauses; however, these clauses have no effect on classifying these leases for accounting purposes. Leases which represent acquisitions are classified as capital leases, and the related assets and liabilities recorded in the general purpose financial statements at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

K. COMPENSATED ABSENCES

Annual Leave

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at each year-end, as set by the agency. The amount of annual leave earned ranges between one and two days per month, and is fixed by the employing unit per section 54-06-14 of the North Dakota Century Code. Employees are paid for unused annual leave upon termination or retirement.

The governmental fund financial statements recognize annual leave when the liability is incurred and payable from available expendable resources. The agency-wide financial statements present the cost of accumulated annual leave as a liability.

Sick Leave

The North Dakota Century Code, section 54-06-14, states employees accrue sick leave at the rate of one to a maximum of one and one-half working days per month of employment without limitation on the amount that can be accumulated. Employees of the Office accrue sick leave at a rate of one day per month. Employees vest at 10 years of creditable service at which time the state is liable for 10 percent of the employee's accumulated unused sick leave. The governmental fund financial statements recognize sick leave as it is incurred. The agency-wide financial statements present the estimated cost of sick leave as a liability after an employee has been employed by the state for six consecutive years.

L. REVENUES AND EXPENDITURES/EXPENSES

In the agency-wide Statement of Activities, revenues and expenses are segregated by activity, then further by function for governmental activities. Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges to customers for services; and 2) operating grants.

In the governmental fund financial statements, revenues are reported by source.

In the governmental fund financial statements, expenditures are reported by character. "Current" expenditures are subclassified by function.

M. NET POSITION/FUND BALANCE

The difference between fund assets and liabilities is "Net Position" on the agency-wide statements and "Fund Balance" on governmental fund statements. Fund balance classifications for governmental funds are reported in two general classifications, nonspendable and spendable. Nonspendable represents the portion of fund balance that is not in spendable form such as inventories and prepaids. Spendable fund balance is further categorized as restricted, committed, assigned, and unassigned.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by the State constitution and external parties, such as the federal government, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the state's legislature, through legislation, that is not considered as enabling legislation, passed into law.

Assigned fund balance classifications are used when the amounts are to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The assignment of fund balance is generally initiated by the executive branch and later appropriated by the Legislature for a specific purpose.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification would only be used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The balance sheet amounts shown as committed fund balances in the operating fund can be used only for expenses relating to political subdivision audits in accordance with North Dakota Century Code. This commitment of fund balance can only be changed by an act of the State Legislature. The balance sheet amounts shown as assigned in the other governmental funds can only be used for conference activity.

NOTE 2 – DETAILED NOTES ON ACCOUNT BALANCES

A. DEPOSITS

Deposits consist of money on deposit with the State Treasurer.

At June 30, 2013 and 2012, the carrying amounts of the Office of the State Auditor's deposits were \$106,394 and \$152,457, respectively; and the bank balances were \$106,394 and \$152,457, respectively. These deposits are held at the Bank of North Dakota, and therefore are not subject to credit risk.

B. CAPITAL ASSETS

Capital assets consist of a copy machine which is fully depreciated. The original cost was \$10,450 and accumulated depreciation is \$8,650, leaving a net value of \$1,800 at June 30, 2013 and 2012.

C. OPERATING LEASES

The Office of the State Auditor leases office space under cancelable operating leases. Total costs for these leases for the years ended June 30, 2013 and 2012 were \$60,940 and \$60,865, respectively.

D. LONG-TERM DEBT

A summary of changes in general long-term debt for the years ended June 30, 2013 and 2012 is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	<u>\$ 380,161</u>	<u>\$ 18,540</u>	<u>\$ 18,947</u>	<u>\$ 379,754</u>	<u>\$ 15,999</u>
	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	<u>\$ 379,754</u>	<u>\$ 27,393</u>	<u>\$ 4,212</u>	<u>\$ 402,935</u>	<u>\$ 15,804</u>

NOTE 3 - NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM (NDPERS)

The Office of the State Auditor participates in the North Dakota Public Employees' Retirement System 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 percent of the employee's accrued normal retirement benefit, or monthly payments in an amount equal to the employee's accrued 100 percent 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 percent 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 percent 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 percent (effective through December 31, 2011), 5 percent (effective January 1, 2012), and 6 percent (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 percent of the full employee contribution. Employer contributions of 4.12 percent (effective through December 31, 2011), 5.12 percent (effective January 1, 2012), and 6.12 percent (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 \$339,018, \$296,622, and \$241,868, 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 4 - RISK MANAGEMENT

The Office of the State Auditor 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 Office of the State Auditor 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 property damage to building and personal property. Replacement cost coverage is provided by estimating 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. The State Bonding Fund currently provides the Office with blanket fidelity bond coverage in the amount of \$450,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Office 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.

NOTE 5 - RELATED PARTIES

As noted in "Note 1" of these financial statements, the Office of the State Auditor is an agency of the state of North Dakota; therefore other agencies of the state are related parties.

**OFFICE OF THE STATE AUDITOR
Bismarck, North Dakota**

**Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE - GENERAL AND SPECIAL REVENUE FUNDS
For The Biennium Ended June 30, 2013**

	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Resources:					
General Fund Transfer	\$ 7,143,808	\$ 1,320	\$ 7,145,128	\$ 7,122,736	\$ (22,392)
Federal Fund Revenue	918,583		918,583	884,626	(33,957)
Special Fund Revenue	1,508,939		1,508,939	1,246,240	(262,699)
Amounts Available for Appropriation	<u>\$ 9,571,330</u>	<u>\$ 1,320</u>	<u>\$ 9,572,650</u>	<u>\$ 9,253,602</u>	<u>\$ (319,048)</u>
Charges to Appropriations:					
Salaries and Wages	\$ 8,626,758	\$ 1,320	\$ 8,628,078	\$ 8,549,312	\$ 78,766
Operating Expenses	794,572		794,572	704,602	89,970
Information Tech Consultants	150,000		150,000	89,674	60,326
Total Charges to Appropriations	<u>\$ 9,571,330</u>	<u>\$ 1,320</u>	<u>\$ 9,572,650</u>	<u>\$ 9,343,588</u>	<u>\$ 229,062</u>

Explanation of Differences Between Budgetary Inflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources

Actual Amounts (budgetary basis) "total revenue inflows" \$ 9,253,602

The period of availability for revenue recognition for budget purposes differs from the GAAP basis. 14,792

General fund revenue is not budgeted 1,464,215

Conference revenue is not budgeted 26,750

Total revenues/transfers in as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds \$ 10,759,359

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule \$ 9,343,588

Differences - budget to GAAP:
Expenditures from the conference fund are not appropriated 21,050

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds \$ 9,364,638



Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

Governor of North Dakota
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2013 and 2012, audits of the Office of the State Auditor are as follows:

Audit Report Communications

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?

Yes. However, we did have one finding described in the schedule of findings and responses.

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

No.

5. Was action taken on prior audit findings and recommendations?

There were no prior year findings or recommendations.

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

Yes, a separate management letter has been issued and is attached following page 31. There were no recommendations included in the management letter.

Audit Committee Communications

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions?

None

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?

The most sensitive estimate affecting the financial statements was the valuation of the work-in-process receivables. The estimate of the WIP receivables is based on the percentage of the audit completed divided by the total budgeted hours for the audit. The auditor's conclusion regarding the reasonableness of this estimate is based on accuracy of the estimates based on these factors.

3. Identify any significant audit adjustments?

There were two significant audit adjustments as a result of the audit procedures performed. The adjustments were to reduce the WIP and Accounts Receivable balances in both the General and Operating funds.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to the 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.

None

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 assessed by auditors are directly related to the operations of an information technology system.

None

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

Eide Bailly LLP

Bismarck, North Dakota
December 3, 2013



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

Governor of North Dakota
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

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 statements of the governmental activities, each major fund, and the aggregate remaining funds of the Office of the State Auditor as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Office of the State Auditor's basic financial statements, and have issued our report thereon dated December 3, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office of the State Auditor'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 the Office of the State Auditor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Auditor's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency 2013-1 described in the accompanying Schedule of Findings and Responses to be a material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of the State Auditor's financial statements are free from 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*.

Response to Findings

The Office of the State Auditor's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Office of the State Auditor's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Bismarck, North Dakota
December 3, 2013

2013-01 Audit Adjustments

Condition – We identified misstatements in the Office of the State Auditor’s financial statements causing us to propose audit adjustments to the June 30, 2013 financial statements.

Criteria – Effective internal accounting control systems contemplate proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause – The Office of the State Auditor had finalized engagements included in both accounts receivable and work in process for both the general and operating funds. This error caused the work in process balances to be overstated.

Effect – Inadequate internal controls over recording of transactions affects the Office of the State Auditor’s ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation –We recommend the Office of the State Auditor review the recording of transactions process and ensure all general ledger accounts have been reconciled and adjusted to the appropriate balances.

Response - We concur. We have a process in place to ensure that amounts in work-in-progress (WIP) are not replicated in the accounts receivable balance. This process was followed for the June 30, 2012 WIP, but was not followed for the June 30, 2013 WIP. More care will be taken in the future to ensure our process is followed



Governor Jack Dalrymple
The Legislative Assembly

Office of the State Auditor
Bismarck, North Dakota

We have audited the financial statements of the Office of the State Auditor for the year ended June 30, 2013 and 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing, 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 June 12, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Office of the State Auditor are described in Note 1 to the financial statements. During 2013, Office of the State Auditor implemented GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which did not have a significant effect on financial reporting. No new accounting policies were adopted and the application of existing policies was not changed during 2013 or 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. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

The most sensitive estimate affecting the financial statements was the valuation of the work-in-process receivables. The estimate of the WIP receivables is based on the percentage of the audit completed divided by the total budgeted hours for the audit. The auditor's conclusion regarding the reasonableness of this estimate is based on accuracy of the estimates based on these factors.

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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following misstatements to the 2013 financial statements that were detected as a result of audit procedures were corrected by management:

Revenue - Political Subdivision WIP	\$17,750	
Due from Local Government		\$17,750
Revenue – State Agency WIP	31,813	
Due from Local Government		31,813
To take out receivables that were included in both WIP and AR.		

In addition, the following summarizes an uncorrected misstatement of the 2012 financial statements, for which management has determined that their effects are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

Due from Local Government	\$1,109	
Revenue – Political Subdivision		\$1,109
Projected increase in accounts receivable based on actual hours versus the worksheet.		

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 December 3, 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.

Other Matters

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

This information is intended solely for the use of the Governor of North Dakota, Legislative Assembly, and management of Office of the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
December 3, 2013