NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Tuesday, February 26, 2008
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Bob Skarphol, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Bob Skarphol, Ole Aarsvold, Larry Bellew, Kari L. Conrad, Jeff Delzer, Bette Grande, Patrick R. Hatlestad, RaeAnn G. Kelsch, Kenton Onstad, Louis Pinkerton, Blair Thoreson, Francis J. Wald; Senators Dwight Cook, Jerry Klein, Judy Lee

Members absent: Representative Merle Boucher; Senators Randel Christmann, Harvey D. Tallackson

Others present: Jim W. Smith, Director, Legislative Council

See attached appendix for additional persons present.

It was moved by Representative Aarsvold, seconded by Representative Kelsch, and carried on a voice vote that the minutes of the November 19, 2007, meeting of the Legislative Audit and Fiscal Review Committee be approved as distributed.

ADMINISTRATIVE COMMITTEE ON VETERANS AFFAIRS AND DEPARTMENT OF VETERANS AFFAIRS AUDIT - FOLLOWUP REPORT

Chairman Skarphol called on Mr. Gordy Smith, State Auditor's office, to present the followup report on the Administrative Committee on Veterans Affairs and Department of Veterans Affairs performance audit. He said 18 prior audit recommendations were fully implemented, 8 were partially implemented, and 1 was determined to be not implemented.

In response to a question from Representative Conrad, Mr. G. Smith said several states employ staff to administer conservatorship programs. He said the Department of Veterans Affairs is a "central point" for veterans and would be a logical agency for a conservatorship program. He said there would be stronger controls in place for a conservatorship program if the program was administered by a state agency rather than the counties.

In response to a question from Representative Wald, the legislative budget analyst and auditor said the June 30, 2009, balance of the veterans' postwar trust fund balance projected at the end of the 2007 legislative session is estimated to be approximately $5 million. He said the required principal balance is $4.1 million. Mr. G. Smith said the balance of the veterans' aid fund as of January 31, 2008, was $205,000. He said the veterans' aid fund is used to fund the veterans' aid loan program.

In response to a question from Representative Wald, the legislative budget analyst and auditor said the Legislative Council's interim Public Safety Committee is considering a bill draft that would reduce the size of the Administrative Committee on Veterans Affairs from 15 members to 7 members.

Mr. Tom Sumers, Veterans' Benefits Specialist, Department of Veterans Affairs, said the department has been more proactive in training veterans' service officers across the state. He said the department has purchased new software to assist in tracking services being provided to veterans.

In response to a question from Representative Skarphol, Mr. Sumers said the search for a new commissioner for the department has been narrowed to three candidates. He said a new commissioner will be selected at the March 15, 2008, Administrative Committee on Veterans Affairs meeting.

UNIVERSITY OF NORTH DAKOTA SCHOOL OF MEDICINE AND HEALTH SCIENCES

Chairman Skarphol called on Dr. H. David Wilson, Dean, University of North Dakota (UND) School of Medicine and Health Sciences, to present information regarding the status of the centers for family medicine. A copy of the information presented is on file in the Legislative Council office. Dr. Wilson said the Bismarck and Minot Centers for Family Medicine are fully accredited. He said the Minot program began in 1975 and is accredited through April 2009. He said the Bismarck program began in 1976 and is accredited through September 2011.

Dr. Wilson said 56 of the 131 graduates of the Minot program are practicing in North Dakota and 12 of the 22 family practice physicians in Minot are graduates of the Minot program. He said 85 of the 127 graduates of the Bismarck program are practicing in North Dakota and 35 of the 41 family practice physicians in Bismarck are graduates of the Bismarck program.

Dr. Wilson said the Bismarck program has 4.6 full-time equivalent (FTE) faculty positions, 15 residents, and 18.1 FTE staff positions. He said the Minot program has 5 FTE faculty positions, 15 residents, and 26.6 FTE staff positions. He said the Minot pharmacy has 2.2 FTE staff positions. He said the Bismarck program has 11,844 annual patient encounters and the Minot program has 18,093 annual patient encounters. He said the Minot pharmacy annually fills 25,267 prescriptions.

In response to a question from Representative Skarphol, Dr. Wilson said the Minot pharmacy was incorporated when the Minot facility was built. He said the pharmacy struggled in the beginning but is building a stronger financial basis.

In response to a question from Representative Skarphol, Dr. Wilson said the difference in the number of patient encounters between the Bismarck and Minot programs is partly due to patients following their doctors when the doctors leave residency and begin a private practice. He said the Bismarck community has more family physicians which creates a more competitive market for patients. He said the Bismarck program is exploring new patient populations to serve, including the Native American population in Bismarck and the surrounding reservations.

Dr. Kim Krohn, Program Director, Minot Center for Family Medicine, said accreditation requirements limit the amount of time residents spend in rural communities to one month per year on residency time. She said residents in their second year or third year can provide services in the community. She said residents provide services at the Fort Berthold Indian Reservation, Garrison, Stanley, Cando, and Rugby.

Dr. Jeff Hostetter, Program Director, Bismarck Center for Family Medicine, said residents do not get credit for the patients seen in any clinic other than the program clinic. He said the Bismarck program residents provide services at Fort Yates, Beulah, Elgin, and two locations in South Dakota. He said the residents choose which rural community to serve.

In response to a question from Representative Delzer, Dr. Hostetter said first-year residents only see patients in the clinic one-half day per week, second-year residents three half days per week, and third-year residents four half days per week.

In response to a question from Representative Onstad, Dr. Hostetter said the residency program is allowed five residents for each level. He said a resident would only leave during the third year if removed by disciplinary action. To be board-certified by the American Board of Medicine and the North Dakota Board of Medical Examiners, he said, a resident must spend the second year and third year of residency in the same program. He said authorization from the Centers for Medicare and Medicaid Services (CMS) is required to receive reimbursement for the education of additional residents.

In response to a question from Senator Lee, Dr. Hostetter said the Bismarck program is aggressively advertising and has contracts with the Dakota Women's Correctional and Rehabilitation Center and the Burleigh County Detention Center. He said the program provides community service by providing free care vouchers to Carrie's Kids and JoAnne's Healthcare Center at the Ruth Meiers Hospitality House. He said he has contacted the Dakota Community Health Association regarding becoming a federally qualified health center "look-alike" so the program can charge based on a sliding fee scale to patients without insurance and to allow the program to apply for available grants to become a federally qualified health center.

In response to a question from Representative Aarsvold, Dr. Hostetter said the Indian Health Service reimburses for services provided, but not on a timely basis. He said reimbursements can be delayed up to five years.

In response to a question from Representative Pinkerton, Dr. Krohn said the Minot program's patient caseload could accommodate six residents per year. She said this would make residency more attractive to potential doctors and increase the level of services in rural communities. She said North Dakota has an excellent J-1 Exchange Visitor Visa waiver program that allows foreign medical students to remain in the state for an extended period of time if they are providing medical services in underserved areas.

Dr. Wilson said approximately 51 percent of all patients of the centers for family medicine have minimal or no insurance coverage. He said Medicare and Medicaid do not cover all costs associated with patient care. He said the total estimated writeoff for Medicare and Medicaid for fiscal year 2008 is $1.1 million.

In response to a question from Representative Skarphol, Dr. Wilson said revenues from the UND School of Medicine and Health Sciences will be used to offset the $1.1 million in writeoffs. However, he said, the school cannot continue to sustain the writeoffs and will be asking the Legislative Assembly for additional financial support.

Dr. Wilson said the centers for family medicine experienced a $1.5 million reduction in net equity in fiscal year 2006. He said a deficit reduction plan began in the fall of 2006 which included the formation of an oversight committee. He said accounting changes included recording accounts receivables on a monthly rather than annual basis and adjusting financial statements monthly for accruals. He said the deficit was reduced by $991,500 in fiscal year 2007, resulting in an ending fund equity balance of ($612,049) on June 30, 2007.

In response to a question from Representative Onstad, Dr. Wilson said many major hospitals have established rural clinics to deliver rural health care.

In response to a question from Representative Delzer, Dr. Wilson said he will provide information regarding fixed costs at the centers and private clinics.

In response to a question from Representative Skarphol, Dr. Wilson said the general fund appropriations of approximately $2 million per biennium for the center in Fargo that was closed and the center in Grand Forks that is now administered by Altru Health System were not removed from the medical school budget for the Department of Family

Medicine. He said the funding is used for additional faculty to allow first-year residents more contact with family doctors.

Mr. Randy Eken, Associate Dean for Administration and Finance, UND School of Medicine and Health Sciences, said total revenue for the centers for family medicine for the 2005-07 biennium was $15.9 million. He said patient income of $8.3 million accounted for 52.4 percent of the revenue, teaching hospitals provided $4.1 million, or 25.8 percent, and supplemental income from the UND School of Medicine and Health Sciences of $3.5 million accounted for 21.7 percent. He said $2.9 million of the supplemental income provided by the school was from the general fund. He said estimated total revenue for fiscal year 2008 is $9.3 million.

Mr. Eken said total expenditures for the centers for family medicine for the 2005-07 biennium were $16.5 million. He said operating expenses of $4.96 million accounted for 30.1 percent of the expenditures and faculty salaries of $3.5 million accounted for 21 percent. He said other expenditures related to fringe benefits, resident costs, and staff salaries. He said the estimated total expenditure amount for fiscal year 2008 is $8.7 million.

Mr. Eken said the total ending fund equity balance for both programs on June 30, 2007, was ($612,049). He said the medical school is anticipating an estimated profit of $556,837 for fiscal year 2008 which will result in an estimated fund equity balance on June 30, 2008, of ($55,213).

Mr. Eken said the school is in a dispute with CMS regarding disallowed reimbursements for direct graduate medical education and indirect medical education costs. He said $388,424 in disallowed reimbursements is currently under appeal. He said an administrative hearing was held in July 2007 and a decision is anticipated in 12 months to 18 months. In addition to the amounts under appeal, he said, approximately $1.8 million in graduate medical education reimbursements have been reduced from the hospitals' cost reports. In fiscal year 2006, he said, the school reduced previously recorded hospital accounts receivables by $700,000.

Mr. Eken said the Bismarck Center for Family Medicine accounts receivable balance on December 31, 2007, for Medcenter One was $2.36 million and the patient accounts receivable balance on December 31, 2007, was $420,010. He said the accounts receivable balance for St. Alexius Medical Center indicates the Bismarck Center for Family Medicine owes St. Alexius $47,612.

Mr. Eken said the Minot Center for Family Medicine accounts receivable balance on December 31, 2007, for Trinity Hospital was $400,000 and the patient accounts receivable balance on December 31, 2007, was $278,704. He said the patient accounts receivable balance for the Minot pharmacy on December 31, 2007, was $39,063.

Mr. Eken said the medical school has been reviewing the program funding needs for the 2009-11 biennium. He said the funding plan is being reviewed by the Medical Center Advisory Council and will be presented at the April 3, 2008, State Board of Higher Education meeting. He said the medical school plans to request from the Legislative Assembly an additional $2 million for continuing support, including $1.775 million for general operating expenses and $225,000 for electronic medical records for the Bismarck and Minot Centers for Family Medicine. He said the school will also request $9 million from the general fund for one-time capital investments, including $5 million for a new Bismarck facility and $4 million to retire the bond for the existing Minot facility. He said if the bond retirement is authorized, the operating expense request could be reduced by $500,000.

Dr. William Mann, Assistant Program Director, Grand Forks family medicine program, Altru Health System, said the residency program depends on patient flow. He said the purposes of residency programs are to serve patients of North Dakota and to create a laboratory that allows the training of family physicians through the residency program. He said the three sources of income for residency programs are hospital graduate medical education reimbursements, patient care income, and state appropriations. He said the more patients seen through the program will result in more income for the residency program. He said patient care is vitally important and generates income through residency and faculty practice. He said faculty practice is important because it retains patient continuity. He said a mechanism for controlling patient attrition and an answer to rural health care problems is to have the residency program become part of a well-developed local health care system.

Dr. Greg Greek, Director, Grand Forks family medicine program, Altru Health System, said the Grand Forks program experienced a net profit of $496,000 in 2006, which was its first full year of operating since separating from the UND School of Medicine and Health Sciences. He said program directors also serve patients to provide mentoring and act as role models for residents. He said the directors are restricted to four half days per week spent on patient care to allow for adequate administration of the program. He said first-year residents are required to see 150 patients per year, second-year residents are required to see 500 patients per year, and third-year residents are required to see 1,000 patients per year for accreditation purposes.

In response to a question from Representative Skarphol, Dr. Greek said the Grand Forks program had 22,100 patient encounters in 2007 and anticipates 24,000 patient encounters in 2008.

Dr. Larry Halvorson, faculty, Grand Forks family medicine program, Altru Health System, said one solution will not work for all programs. He said there should be flexibility in how a program is structured.

He reviewed the four major types of family medicine programs. He said community-based, medical school-affiliated programs, like the Grand Forks program, account for 60 percent of all programs; community-based, medical school-administered programs, like the Minot and Bismarck programs, account for 20 percent; medical school-based programs with their own hospital and teaching staff account for 13 percent; and military programs or freestanding programs sponsored by a hospital, clinic, or health care organization account for 7 percent. He said all four major cities in North Dakota could have productive family medicine programs.

Dr. Jim Brosseau, Internist, Altru Health System, Grand Forks, said the Grand Forks family medicine program is successful because highly dedicated, committed faculty serves as role models for the students. Beginning in 2008, he said, all incoming students are required to receive training in public health from the University of Minnesota. He said the students have the option, after three years, to obtain a master's degree in public health, which is an additional six weeks of training from the University of Minnesota.

Dr. Wilson said the medical school is in discussions with both health care systems in Bismarck--St. Alexius and MedCenter One--regarding a possible partnership with the medical school for the operations of the educational program in Bismarck. He said the medical school depends on both health care systems to train the medical students.

Dr. Wilson said discussion was held during the 2007 Legislative Assembly regarding a master's degree in public health program for medical students, residents in all programs, practicing physicians, and others in health care. He said a partnership with the University of Minnesota may be necessary for a period of time. He said medical schools are being asked to increase the number of students by 30 percent. He said the school would like to increase its student count from 62 to 75.

NATIONAL STATE AUDITORS ASSOCIATION EXTERNAL PEER REVIEW PROCESS

Chairman Skarphol called on Ms. Pam Robinson, Wyoming Department of Audit, to comment on the system of quality control of the North Dakota State Auditor's office. Ms. Robinson addressed the committee via telephone. Ms. Robinson said she was the team leader for the external peer review of the North Dakota State Auditor's office in 2005. She said auditing standards require peer reviews every three years. She said peer reviews are conducted through the National State Auditors Association. She said it is the association's policy to rotate auditors so an auditor does not review the same state for two consecutive reviews. She said a team leader is selected who has been on one or more peer reviews. She said several team members are appointed to support the team leader. She said the team's work is reviewed by another reviewer at the end of the peer review to ensure review standards have been met. She said the size and experience of the peer review team depends on the different types of audits performed by the auditor's office under review. She said the peer review team for North Dakota consisted of five or six members. She said the team reviews office policy to ensure professional standards are being met. She said a sample of audits is reviewed equating to 25 percent to 30 percent of total hours of audit time for audits conducted by the office under review. She said the National State Auditors Association has a committee that updates the checklist for both performance and financial audit reviews to ensure all new standards are incorporated into office policies and complied with. She said the North Dakota State Auditor's office received an unqualified or "clean" opinion on its 2005 review. She said the next review of the office is scheduled for May 2008.

INTERNAL CONTROL AND COMPLIANCE REPORTS

Mr. John Grettum, State Auditor's office, presented the State Auditor's office internal control and compliance report on the audit of the general purpose financial statements included in the June 30, 2007, annual financial report for the North Dakota University System. He reviewed the auditor's responses to the committee guidelines and said nine prior audit recommendations were not implemented. He said the prior audit recommendations not implemented relate to:

- Proper use of account codes, funds, fund groups, and functions available on PeopleSoft to comply with Generally Accepted Accounting Principles.
- Approval of online transactions.
- Accrued payroll withholdings.
- Lack of fraud policies.
- Comprehensive payroll policy and procedure manual.
- General ledger activity, deferred revenues, and year-end entries.
- Policies for annual grant-specific audits (centers of excellence).
- Schedule of estimated useful life.
- Policies and procedures to ensure component units prepare financial statements in accordance with Generally Accepted Accounting Principles and receive annual financial statement audits.

Mr. Grettum said the report identifies nine current audit recommendations relating to:

- Inadequate financial reporting system.
- Lack of efficiency in financial operations and management.
- Internal balances between state agencies and colleges and universities.
- PeopleSoft access rights.
- Imaging system security issues.

- Use of Social Security numbers for account numbers at the Student Loan Service Center.
- Lack of separate records for Valley City State University Foundation.
- Indirect cost accruals at North Dakota State University and the University of North Dakota.
- Changes to documents after approval at North Dakota State University and the University of North Dakota.

Mr. Grettum said the recommendations relating to inadequate financial reporting system, internal balances between state agencies and colleges and universities, and PeopleSoft access rights are material weaknesses.

In response to a question from Representative Skarphol, Mr. Grettum said from an audit perspective, a software package should be usable out of the box and problems with the software package should be resolved by the second year of use.

In response to a question from Representative Aarsvold, Mr. Grettum said the University System has added several FTE positions to resolve the problems with ConnectND. He said the lack of progress is disconcerting.

In response to a question from Representative Onstad, Mr. Grettum said the University of North Dakota and North Dakota State University were not able to justify to the auditors the appropriateness of lease payments made for buildings they lease and will not own at the end of the lease.

In response to a question from Representative Skarphol, Mr. Grettum said there are no letters of agreement or memorandums of understanding in regard to transferring ownership of the leased buildings to the universities.

Senator Cook asked the State Auditor's office to provide information from the articles of incorporation and bylaws of the universities' foundations regarding provisions of ownership for the leased buildings if a foundation is dissolved, whether the foundation can sell the buildings, and the process for changing the bylaws.

Senator Lee said the universities would not have access to this space if the foundations had not constructed these buildings and leased them to the universities. She said the buildings are important to the mission of the institutions and allow the universities to address the needs of the state and students. She said the State Board of Higher Education is autonomous and is not required to obtain legislative approval.

Mr. Paul Welk, State Auditor's office, presented the State Auditor's office report on the internal control, compliance, and other matters of the state of North Dakota Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. He said the State Auditor's office has audited the general purpose financial statements for the state of North Dakota for the year ended June 30, 2007. He said one prior audit recommendation relating to general ledger transaction approval procedures has not been implemented. He said the report identifies seven internal control weaknesses relating to:

- Lack of general ledger transaction approval procedures.
- Limiting access to information technology applications.
- Errors in closing packages and adjusting entries.
- Lack of proper cash reconciliation and cash balance reporting at the Department of Transportation.
- Establishing adequate fraud programs and controls.
- Improper financial reporting by the Information Technology Department.
- Improper transaction coding by the Protection and Advocacy Project.

Mr. Welk said the internal control weaknesses relating to lack of general ledger transaction approval procedures, limiting access to information technology applications, errors in closing packages and adjusting entries, and lack of proper cash reconciliation and cash balance reporting at the Department of Transportation are material weaknesses.

NORTH DAKOTA UNIVERSITY SYSTEM ANNUAL FINANCIAL REPORT

Ms. Darci Trenda, Director of Financial Reporting, North Dakota University System, presented the annual financial report for the North Dakota University System for the fiscal year ended June 30, 2007. She said an unqualified opinion was issued on the financial statements. As of June 30, 2007, she said, the North Dakota University System had total assets of $1,037 million and total liabilities of $335 million, resulting in net assets of $702 million. She said net assets increased $28 million during fiscal year 2007.

Ms. Trenda said the annual degree credit headcount for the fall of 2006 was 42,237, less than a 1 percent increase over the previous fall enrollment. She said total operating revenues of the North Dakota University System increased 3 percent from fiscal year 2006 as a result of increases in tuition and fees and investment income.

In response to a question from Representative Delzer, Ms. Trenda said she will provide information on actual and anticipated principal payments on the lease revenue bonds for the Minot Center for Family Medicine.

In response to a question from Representative Pinkerton, Ms. Trenda said she will provide information regarding responsibility for the debt if the Minot Center for Family Medicine ceases to function.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ms. Eileen Holwegner, Office of Management and Budget, presented the Comprehensive Annual Financial Report for the state of North Dakota for the fiscal year ended June 30, 2007. Ms. Holwegner reviewed the information contained in the report and a supplemental report entitled *2005-2007 Biennium Budget and Actual Detail.* Copies of both reports are on file in the Legislative Council office.

AUDITS OF STATE AGENCIES, BOARDS, AND COMMISSIONS

Chairman Skarphol called on Mr. John Mongeon, Brady, Martz & Associates PC, to present the audit report for the Public Employees Retirement System for the years ended June 30, 2007 and 2006. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon said the actuary for the Public Employees Retirement System has determined that the fund's unfunded actuarial accrual liability is approximately $107 million and $166 million, as of June 30, 2007 and 2006, respectively. He said the actuary has determined that the current statutory contribution rates are insufficient to meet the actuarially determined requirement for the fiscal years.

Mr. Mongeon presented the audit report for the Retirement and Investment Office for the years ended June 30, 2007 and 2006. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon said the actuary for the Teachers' Fund for Retirement has determined that the fund's unfunded actuarial accrual liability is approximately $459 million and $510 million, as of June 30, 2007 and 2006, respectively. He said the actuary has determined that the current statutory contribution rates are insufficient to amortize the unfunded actuarial liability over any period of time, based on the current actuarial assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

Mr. Mongeon presented the audit report for Workforce Safety and Insurance for the year ended June 30, 2007. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. He said the audit report identifies two internal control findings related to recording dividend declarations and retrospective policy premiums and security measures surrounding consumer credit card information. He said the finding relating to dividend declarations is a material weakness.

Mr. Mongeon presented the audit report for the student loan trust for the years ended June 30, 2007 and 2006. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the guaranteed student loan program for the years ended September 30, 2007 and 2006. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Mongeon presented the audit report for the Mandan remediation and supplemental environmental projects trusts for the years ended December 31, 2006 and 2005. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. He said the report identifies three internal control findings related to segregation of accounting duties, proper balances of general ledger accounts, and financial statement disclosures. He said the finding relating to proper balances of general ledger accounts is a material weakness.

In response to a question from Representative Delzer, Mr. Mongeon said he will provide information on provisions in the trust regarding the mutual satisfaction of the city of Mandan and the State Department of Health relating to remediation cleanup and rehabilitation of the area.

Chairman Skarphol called on Ms. Barb Aasen, Eide Bailly LLP, Certified Public Accountants, to present the audit report for Job Service North Dakota for the years ended June 30, 2007 and 2006. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. She said the report identifies two internal control findings related to sharing of administrator passwords and safe location of backup tapes.

Ms. Aasen presented the audit report for the Board of University and School Lands for the years ended June 30, 2007 and 2006. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. She said the report identifies two internal control findings related to programming management and confidential agency information.

Ms. Aasen presented the audit report for the Housing Finance Agency for the years ended June 30, 2007 and 2006. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. She said the report identifies one internal control finding related to sharing of server passwords.

Ms. Aasen presented the audit report for the State Fair Association for the years ended September 30, 2007 and 2006. She reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. She said one prior audit recommendation relating to segregation of accounting duties was not implemented. She said the report identifies three internal control findings related to segregation of accounting duties, recording of transactions, and preparation of financial statements. She said the recommendation relating to preparation of financial statements is a material weakness.

In response to a question from Representative Delzer, Ms. Aasen said she will provide additional detailed information on the revenues of the State Fair Association.

Mr. Ron Tolstad, State Auditor's office, presented the audit report for the North Dakota Lottery for the years ended June 30, 2007 and 2006. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion and does not contain any findings or recommendations.

Mr. Welk presented the audit report for the Office of Management and Budget for the years ended June 30, 2007 and 2006. He reviewed the auditor's responses to the committee guidelines and said the report contains an unqualified opinion. He said one prior audit recommendation relating to a lack of general ledger transaction approval procedures was not implemented. He said the report identifies six internal control weaknesses relating to:

- Lack of general ledger transaction approval procedures.
- Accounting policies and procedures manual.
- Segregation of duties.
- Fraud risk assessment/control activities.
- Information Technology Department developer access to the PeopleSoft production environment.
- Surplus property internal controls.

DEFERRED MAINTENANCE

Chairman Skarphol called on Ms. Pam Sharp, Director, Office of Management and Budget, to comment on the possibility of a performance audit of the use of funding provided for the 2005-07 biennium for state agencies and institutions for deferred maintenance and extraordinary repairs. Ms. Sharp said it would be difficult to use the accounting system to distinguish between deferred maintenance and extraordinary repairs. She said the Office of Management and Budget cannot determine what account codes the agencies are using to record expenditures relating to deferred maintenance and extraordinary repairs. She said each agency would have to provide information on what type of repair or maintenance was completed in the 2005-07 biennium.

Mr. G. Smith said a performance audit of the use of funding provided for the 2005-07 biennium for state agencies and institutions for deferred maintenance and extraordinary repairs could include an analysis of the formulas used by the Office of Management and Budget to allocate funding to the agencies for deferred maintenance and extraordinary repairs. He said the audit could also include an analysis of agency requests and actual expenditures relating to deferred maintenance and extraordinary repairs.

In response to a question from Representative Skarphol, Ms. Sheila Peterson, Office of Management and Budget, said the Office of Management and Budget uses separate formulas for buildings and infrastructure. She said the inventory system for buildings and infrastructure includes only those buildings and infrastructure funded by the general fund.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

It was moved by Representative Kelsch, seconded by Representative Hatlestad, and carried on a voice vote that, pursuant to North Dakota Century Code Section 54-35-02.2, the committee accept the following reports presented to the committee:

1. **Administrative Committee on Veterans Affairs and Department of Veterans Affairs audit followup report (October 22, 2007).**
2. **North Dakota University System annual financial report (June 30, 2007).**
3. **North Dakota Comprehensive Annual Financial Report (June 30, 2007).**
4. **Public Employees Retirement System (June 30, 2007 and 2006).**
5. **Retirement and Investment Office (June 30, 2007 and 2006).**
6. **Workforce Safety and Insurance (June 30, 2007).**
7. **Student loan trust (June 30, 2007 and 2006).**
8. **Guaranteed student loan program (September 30, 2007 and 2006).**
9. **Mandan remediation and supplemental environmental projects trusts (December 31, 2006 and 2005).**
10. **Job Service North Dakota (June 30, 2007 and 2006).**
11. **Board of University and School Lands (June 30, 2007 and 2006).**
12. **Housing Finance Agency (June 30, 2007 and 2006).**
13. **State Fair Association (September 30, 2007 and 2006).**
14. **North Dakota Lottery (June 30, 2007 and 2006).**
15. **Office of Management and Budget (June 30, 2007 and 2006).**
16. **Report available but not selected for presentation:**
    North Dakota Firefighters Association (April 30, 2007 and 2006).

No further business appearing, Chairman Skarphol adjourned the meeting at 4:00 p.m.

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Becky Keller
Fiscal Analyst

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Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:1