

# *Office of the State Auditor*

*Division of State Audit*

## ND Milk Marketing Board Bismarck, North Dakota

Special Purpose Audit Report for the  
Two Year Period Ended June 30, 2008  
Client Code 607

*Robert R. Peterson*  
*State Auditor*



October 20, 2008

Honorable John Hoeven, Governor  
Members of the Legislative Assembly  
John Weisgerber, Director  
North Dakota Milk Marketing Board

Transmitted herewith is the special purpose financial statement audit of the North Dakota Milk Marketing Board for the two year period ended June 30, 2008. The Office of the State Auditor has prepared this audit report in compliance with North Dakota Century Code section 4-24-10.

The special purpose financial statement has been prepared as required primarily to provide information to the Senate and House agriculture committees. If committee members have any questions they are encouraged to call Ron Tolstad Jr., CPA, Audit Manager, at (701) 328-2243.

The Office of the State Auditor would like to thank the North Dakota Milk Marketing Board for the cooperation we received during our audit.

Sincerely,

Robert R. Peterson  
State Auditor

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**ND MILK MARKETING BOARD  
Bismarck, North Dakota**

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For The Two Year Period Ended June 30, 2008**

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## INDEPENDENT AUDITOR'S REPORT

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Honorable John Hoeven, Governor  
Members of the Legislative Assembly  
John Weisgerber, Director  
North Dakota Milk Marketing Board

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Milk Marketing Board for the two year period ended June 30, 2008. These financial statements are the responsibility of the management of the North Dakota Milk Marketing Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, this financial statement is intended to present the revenues and expenditures of only that portion of the governmental activities of the state of North Dakota that is attributable to the transactions of the North Dakota Milk Marketing Board. They do not purport to, and do not, present fairly the financial position of the state of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

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

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the North Dakota Milk Marketing Board for the two year period ended June 30, 2008, in conformity with the basis of accounting described in Note 1 to the financial statements.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The Detailed Comparative Statement of Revenues and Expenditures subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements of the North Dakota Milk Marketing Board. The Detailed Comparative Statement of Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008 on our consideration of the North Dakota Milk Marketing Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Robert R. Peterson  
State Auditor

October 20, 2008

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**ND MILK MARKETING BOARD**  
**Bismarck, North Dakota**

**STATEMENT OF REVENUES AND EXPENDITURES (Budgetary Basis)**  
**For The Two Year Period Ended June 30, 2008**

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	<u>Fiscal Years</u>	
	<u>2008-2007</u>	<u>2006-2005</u>
REVENUES:		
Assessments	\$ 416,550	\$ 418,016
Interest on Investments	16,057	8,557
Miscellaneous Revenue	18	
Total Revenues	<u>\$ 432,625</u>	<u>\$ 426,573</u>
 EXPENDITURES:		
Salaries and Benefits	\$ 391,239	\$ 348,038
Operating Expenses	76,254	79,682
Total Expenditures	<u>\$ 467,493</u>	<u>\$ 427,720</u>
 Revenue Under Expenditures	<u>\$ (34,868)</u>	<u>\$ (1,147)</u>

See Notes to the Special-Purpose Financial Statement.

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**ND MILK MARKETING BOARD**  
**Bismarck, North Dakota**

**NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS**  
**For The Two Year Period Ended June 30, 2008**

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**Note 1 - Summary of Significant Accounting Policies**

The responsibility for these financial statements, the internal control structure and compliance with laws and regulations belongs to the management of the North Dakota Milk Marketing Board. A summary of the significant accounting policies follows:

**A. Reporting Entity**

For financial reporting purposes, the North Dakota Milk Marketing Board includes all funds, programs, and activities over which it is financially accountable. The North Dakota Milk Marketing Board does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Milk Marketing Board is part of the state of North Dakota as a reporting entity. The financial statements report all expenditure activity in the administration program.

The North Dakota Milk Marketing Board was established by North Dakota Century Code (NDCC), chapter 4-18.1, and is vested with the powers and has the duty to supervise, regulate, and control the fluid milk industry of the state including the production, transportation, processing, storage, distribution, and sale of milk in the state and to conduct hearings upon any subject pertinent to its duties. The North Dakota Milk Marketing Board may act as a mediator or arbitrator to settle and controversy or issue pertaining to fluid milk among or between producers, processors, distributors, retailers, or consumers.

**B. Reporting Structure**

The financial statements include all activities of the reporting entity as defined above. In accordance with section 4-18.1-12 these activities are funded on a continuing appropriation basis from a special revenue fund, fund 219 (the Milk Marketing Board operating fund). The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

**C. Basis of Accounting**

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

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount

can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within one year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principal and interest expenditures which are recorded when due; compensated absences which are recorded when paid; and, claims and judgments.

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

Accounting differences can include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- C. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

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

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

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

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

**Note 2 – Other Significant Items**

The North Dakota Milk Marketing Board has cash and investment reserves of \$263,132. Based on the average monthly expenditures for fiscal year 2008, this amount represents approximately 14 months of expenditures.

North Dakota Century Code section 4-18.1-12 states the Milk Marketing Board shall levy an assessment upon all licensed processors of not more than fourteen cents per hundredweight after June 30, 1999. Effective April 1, 2001, the North Dakota Milk Marketing Board approved reducing the assessment to ten cents per hundredweight.

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**ND MILK MARKETING BOARD  
Bismarck, North Dakota**

**SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT  
AND FISCAL REVIEW COMMITTEE  
For The Two Year Period Ended June 30, 2008**

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The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

1. *What type of opinion was issued on the financial statements?*

An unqualified (clean) opinion was given on the financial statement.

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.

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

No.

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

There were no prior year findings.

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

Yes – see copy of management letter on page 11.

## **LAFRC Audit Communications**

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

There were no significant changes in accounting policies, and no management conflicts of interest, contingent liabilities or significant unusual transactions noted.

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

There were no significant accounting estimates.

3. *Identify any significant audit adjustments.*

There were no significant audit adjustments.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

We did not have any disagreements with management that were significant to the financial statements.

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

We did not experience any serious difficulties in performing the audit.

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

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

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

We are not aware of any management consultations with other accountants.

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

ConnectND Finance and Human Resource Management System (HRMS) are the most high-risk information technology systems critical to the operations of the state.

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**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***

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Honorable John Hoeven, Governor  
Members of the Legislative Assembly  
John Weisgerber, Director  
North Dakota Milk Marketing Board

We have audited the financial statement of the governmental activities of the North Dakota Milk Marketing Board as of and for the two years ended June 30, 2008 and have issued our report thereon dated October 20, 2008. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and are not intended to be a presentation in conformity with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the North Dakota Milk Marketing Board's internal control over financial reporting as a basis for designing our auditing procedures 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 North Dakota Milk Marketing Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Milk Marketing Board's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the North Dakota Milk Marketing Board in a letter dated October 20, 2008.

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

Robert R. Peterson  
State Auditor

October 20, 2008

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**ND MILK MARKETING BOARD**  
**Bismarck, North Dakota**

**Detailed Comparative Statement of Revenues and Expenditures**  
**For The Two Year Period Ended June 30, 2008**

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	Fiscal Years	
	2008-2007	2006-2005
REVENUES:		
Assessments	\$ 416,550	\$ 418,016
Interest on Investments	16,057	8,557
Miscellaneous Revenue	18	
Total Revenues	<u>\$ 432,625</u>	<u>\$ 426,573</u>
EXPENDITURES:		
Salaries and Benefits	\$ 391,239	\$ 348,038
Travel	26,628	25,069
Lease/Rent-Building	13,636	13,067
Professional Services	19,293	26,954
Postage	3,924	3,597
Telecommunications	3,033	2,765
Professional Development	3,707	2,172
Insurance	1,952	2,044
Professional Supplies and Materials	773	742
Office Supplies	1,321	1,789
Repairs	380	316
Printing	291	469
Data Processing	324	162
Equipment under \$5,000	20	
Operating Fees and Services	972	463
Utilities		73
Total Expenditures	<u>\$ 467,493</u>	<u>\$ 427,720</u>
Revenue Under Expenditures	<u>\$ (34,868)</u>	<u>\$ (1,147)</u>

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**ND MILK MARKETING BOARD**  
**Bismarck, North Dakota**

**Management Letter (Informal Recommendations)**  
**For The Two Year Period Ended June 30, 2008**

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October 20, 2008

Mr. John Weisgerber, Director  
North Dakota Milk Marketing Board  
410 E. Thayer Avenue  
Bismarck, ND 58501-4049

Dear Mr. Weisgerber:

We have performed an audit of the North Dakota Milk Marketing Board for the two year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Milk Marketing Board's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

**General**

Informal Recommendation 08-1:

We recommend the North Dakota Milk Marketing Board:

- A. Draft a code of ethics or code of business conduct that addresses, at a minimum:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, similar to the client's current conflict of interest policy;
  - Full, fair, accurate, timely, and understandable disclosure in reports and documents;
  - Compliance with applicable governmental laws, rules, and regulations;
  - The prompt internal reporting of violations of the code to appropriate person or persons identified in the code;
  - Description of what constitutes fraudulent behavior; and
  - Accountability for adherence to the code and the sanctions to be imposed on those who breach it.
- B. Ensure employees have acknowledged their receipt and reading of the code (All persons in an accounting or financial reporting oversight role should annually confirm their receipt and reading of the code).

Informal Recommendation 08-2:

We recommend the North Dakota Milk Marketing Board establish and perform a fraud risk assessment on a comprehensive and recurring basis. We recommend that the North Dakota Milk Marketing Board design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

Management of the North Dakota Milk Marketing Board agreed with these recommendations.

I encourage you to call myself at 328-4785 or Ron Tolstad, audit manager, at 328-2243 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Richard Fuher, CPA  
Auditor in-charge