

State Auditor

## Auditor bill summary and background

The bill provides the Legislative Assembly the opportunity to set its policy for state agency audits and its expectations of the State Auditor when conducting the audits.

The bill requires the State Auditor to conduct financial audits of every agency. About 20 years ago, the State Auditor, with the approval of LAFRC (Legislative Audit and Fiscal Review Committee), changed the way many state agency biennial audits are done. Before this change, every state agency had a financial audit, meaning a review of the agency's financial transactions and financial statements. The change made at the request of the State Auditor in 1999 allowed the State Auditor more flexibility to do what became known as operational audits rather than financial audits. The rationale given by the State Auditor at the time was that because the State Auditor conducts a financial audit on the state's CAFR (Comprehensive Annual Financial Report), it was no longer as necessary to conduct a financial audit on every agency. The change was to allow the State Auditor more flexibility to review the efficiency of agency operations. LAFRC approved the change in 1999, **subject to the State Auditor continuing to provide reliable audited financial statements in the agencies' biennial audit reports.**

Over the years, the State Auditor has been including less and less financial information in the agency biennial audits (See the sample audit report of what the State Auditor told LAFRC in 1999 would be included in the audits to what is included in a 2019 audit report). This bill will ensure more financial information is again included in the audit reports.

The second area the bill addresses is defining the audits. There has been confusion in recent years about what kind of audits the State Auditor is doing. Like I mentioned above, 20 years ago the auditor was conducting financial audits and performance audits. Financial audits focus on the financial information. Performance audits focus on the performance and efficiency of an agency. After the 1999 LAFRC approved change, the State Auditor began doing operational audits which was a hybrid of a financial audit and a performance audit. However, during a LAFRC meeting last interim, when asked about the operational audits, the State Auditor indicated the office now refers to those as performance audits. So what kind of audits is the State Auditor doing? The answer may depend on who you ask. This bill provides a definition section for the audits which should eliminate any confusion going forward.

Although the bill appears to make numerous changes to the State Auditor's duties, there are really only a few changes, but those are very important. The bill takes the Auditor's current duties and categorizes them into a "shall do" category and a "may do" category. Subsection 1 at the top of page 3 includes the "shalls":

- A is the same as current law
  - B is the same as current law, just included in its own subdivision
  - C clarifies that the State Auditor is to conduct financial audits of state agencies every two years (not operational audits or performance audits)
  - D requires the State Auditor to conduct performance audits as directed by the Legislative Assembly or LAFRC, the same as current law except criteria is added for LAFRC to consider when directing a performance audit
  - E, F, and G are the same as current law
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Subsection 2 includes the "mays":

- A is the same as current law
- B allows the State Auditor to conduct performance audits as determined necessary by the State Auditor - The same as current law except the provision added in 2019 requiring LAFRC approval is removed and a provision is added that performance audits be conducted within available resources.
- C is the same as current law
- D combines current law authorizing the State Auditor to contract for outside consulting services into one subdivision but removes the LAFRC approval requirement added in 2019 and instead requires the State Auditor to report to LAFRC on the need for a contract and the estimated cost, and includes criteria for LAFRC to consider when it receives a request from the State Auditor to charge an agency for the cost of a contract.

Subsection 3 includes the definitions of audits to be conducted by the State Auditor

As mentioned earlier, the bill allows the Legislative Assembly to set policy for state agency audits. Although the change made in 1999 was approved by LAFRC, the entire Legislative Assembly has never addressed the issue. This bill allows for that to occur.