



TESTIMONY TO HOUSE APPROPRIATIONS – GOVERNMENT OPERATIONS DIVISION  
HB 1004 – STATE AUDITOR’S OFFICE APPROPRIATIONS  
1/13/2021

Good morning, Chairman Vigesaa, members of the committee, my name is Joshua Gallion, and I serve as North Dakota’s State Auditor. I’m here today to discuss how the State Auditor’s Office can better serve North Dakota and provide information regarding our efforts to fulfill our statutory obligations while improving accountability and promoting transparency of our state’s government, local governments, and institutions of higher education.

As you are aware, the State Auditor is a constitutional state official elected by North Dakota citizens. My job is to lead the way in providing truthful, objective and independent information to you and the citizens of North Dakota. Our mission is to produce informative audits that improve government, and our team is committed to generating greater value for taxpayers.

Today I am providing information surrounding our request to move four full-time employees from general fund dollars to special funds to better meet local governments’ needs. All operations from the local government division are specially funded, meaning no general funds are needed. Revenues generated from conducting our audits are deposited into a special fund and all related expenses — including salaries — are paid from that special fund.

Currently, we are aware of 40 local governments who need an auditor. In 2008, 128 audit firms were licensed to do government audits in North Dakota. Today, only 14 are conducting government audits.

As of January 1<sup>st</sup>, those 14 firms have 371 outstanding county, city, and school district audit reports due to our office. In addition, there are numerous water, fire, park, and political subdivision audit reports due to our office. Recent retirements have left 24 local governments without an auditor, and when remaining independent CPAs retire, 79 local governments may not have the ability to provide assurance to the public that their tax dollars are being used properly.

As the number of audit firms conducting government audits consistently declines, the number of entities requiring audits continues to increase. Our office currently has 23 local governments requesting us to conduct their audit. We regularly receive notices from local governments that cannot find anyone to complete their audit or cannot afford an audit conducted by a private firm. Our services are typically lower in cost than a private firm, which keeps costs down for both local governments and taxpayers.

Moving these four positions from general fund to special fund allows us to serve the local governments better by completing more audits. Our team estimates we could complete approximately 20-24 more audits with four additional staff auditors.

This concludes my testimony and I’m happy to answer any questions you may have. Thank you.

## APPENDIX A – AGENCY OVERVIEW & ACCOMPLISHMENTS

The duties and responsibilities of the State Auditor are included in Article V, § 2 of the North Dakota Constitution and Chapter 54-10 of the North Dakota Century Code.

The activities of the Office of the State Auditor are carried out through 58 employees in five divisions: Administration, Division of State Audits, Higher Education Performance Audit Division, Division of Local Government Audits, and Division of Mineral Royalty Audits.

### 1. Administration Division

The Administration Division provides oversight and support for the other divisions of the Office of the State Auditor.

#### Accomplishments

- Awarded second place for Most Improved Publication from the National Association of Government Communicators.
- Awarded Top 10 Workplace for Young Professionals by the Bismarck-Mandan Young Professionals Network.
- Out of 1,400 nominations our office was awarded 50 Best Places to Work from Prairie Business Magazine.
- Received the highest possible rating from the National State Auditors Association in the peer-review process.

### 2. Division of State Audits

The Division of State Audits conducts performance, operational, information technology, and financial statement audits of state agencies as authorized by:

- N.D.C.C. 54-10-01 (2) “Perform or provide for the audit of the general purpose financial statements and a review of the material included in the comprehensive annual financial report of the state and perform or provide for the audits and reviews of state agencies. Except for the annual audit of the North Dakota lottery required by section 53-12.1-03, the state auditor shall audit or review each state agency once every two years.”
- N.D.C.C. 54-10-01 (4) “Perform or provide for performance audits of state agencies, or the agencies' blended component units or discretely presented component units, as determined necessary by the state auditor or the legislative audit and fiscal review committee.”

#### Accomplishments

- 42 - Agency operational audits are conducted every biennium.
- 12 - Higher education operational audits are conducted every biennium.
- 22 - Agency financial audits are conducted every biennium.
- 1 - Agency performance audit was conducted this biennium.

- 1 - Federal single audit is conducted every biennium.
- 2 - Comprehensive Annual Financial Report (CAFR) is conducted every biennium.
- 5 - Special investigations were conducted this biennium.

### 3. Higher Education Performance Audit Division

The Higher Education Performance Audit Division conducts performance audits of the North Dakota University System as authorized by:

- N.D.C.C. 54-10-30 “The state auditor shall establish a higher education audit division and employ a division audit manager to perform all audit-related functions of the state board of higher education, including the examination and evaluation of the adequacy and effectiveness of the board's governance, risk management, internal controls, performance of constitutionally and statutorily required duties, and other areas as determined by the state auditor.”

#### Accomplishments

- 11 higher education performance audits were conducted this biennium.

### 4. Division of Local Government Audits

The Division of Local Government Audits — which is entirely self-funded — conducts audits of political subdivisions, small government reviews, and reviews of audit reports as authorized by:

- N.D.C.C. 54-10-14 (1) “The state auditor shall audit the following political subdivisions once every two years.”
- N.D.C.C. 54-10-14 (3) “In lieu of conducting an audit every two years, the state auditor may require annual reports from school districts with less than one hundred enrolled students; cities with less than five hundred population; and other political subdivisions subject to this section, or otherwise provided by law, with less than three hundred thousand dollars of annual receipts, excluding any federal funds passed through the political subdivision to another entity.”
- N.D.C.C. 54-10-14 (4) “A political subdivision, at the option of its governing body, may be audited by a certified public accountant or licensed public accountant rather than by the state auditor.” “The state auditor shall review the audit report to determine if the report is in the required form and has the required content, and if the audit meets generally accepted government auditing standards.”

#### Accomplishments

- 78 local government audits are conducted every biennium.

- First petition audit completed. This audit was the Belcourt Public Schools 2019. Our audit reported 15 findings, some of which could have been identified by a previous auditor.
- First Governor Requested Audit (that we are aware of) for the Oberon Public School District 2020-2019. Governor Burgum requested this audit because of financial discrepancies from the Oberon Public School District that were uncovered during an investigation by the Bureau of Criminal Investigation.
- The First Stewardship award was given to the City of Devils Lake 2020. This award celebrates excellence in auditing and is given to entities the State Auditor's Office has worked with conducting audits. The criteria for the award includes no significant deficiencies that are identified, no ethical or financial concerns, and a strong commitment to serving the taxpayers of North Dakota.

## 5. Division of Mineral Royalty Audits

The Mineral Royalty Division of the State Auditor's Office conducts compliance reviews and audits of federal royalty payments and revenue from oil, gas, and coal leases across North Dakota. The Mineral Royalty Division of the State Auditor's Office is fully funded by the federal government. There are currently 10 states and seven Native American tribes participating in this program with the Office of Natural Resources Revenue through the U.S. Department of the Interior.

### Accomplishments

- 5 mineral royalty audits and 123 compliance reviews were conducted this biennium.
- Over \$230 Million in Federal Royalty Payments were verified by our office for State and Federal Funding during calendar years 2015 and 2016.

## APPENDIX B – HISTORY OF THE STATE AUDITOR’S OFFICE

### Brief Historical Perspective

1889 – North Dakota's first State Auditor took office. Much as county and city auditor’s function to this day, for the first 72 years of the state’s existence, the State Auditor functioned as a bookkeeper or accountant rather than a true “auditor.”

1961 – The State Auditor’s responsibilities were changed to performing the post audit of all financial transactions of state government. At the time this meant auditing 100 separate departments.

1969 – The State Auditor began performing audits of political subdivisions.

1971 – The Legislature gave counties the option to contract for their own audits and soon after that other political subdivisions were given the same power.

1973 – The State Auditor modernized operations by adopting generally accepted auditing standards.

1975 – The State Auditor started to conduct performance audits to help improve the effectiveness and efficiency of state government.

1982 – The State Auditor was given the responsibility for performing royalty audits to ensure royalties are properly paid on federal oil, gas and coal leases.

1984 – The Single Audit Act was passed. This act combined the responsibilities for auditing government financial statements with auditing compliance with requirements relating to federal financial assistance. The State Auditor was given this responsibility, significantly increasing the auditors’ workload.

1986 – Because of the demands of the Single Audit Act, performance audits were discontinued.

1991 – The Legislature funded positions for the State Auditor to establish a performance audit function.

1991 – The Legislature required the State Auditor to audit the state-wide financial statements also known as the comprehensive annual financial review (CAFR). At this time, biennial agency audit reports went from including financial statements prepared in accordance with generally accepted accounting principles to only including reports on internal control and compliance with laws and regulations.

1991 – The State Auditor’s Division of Local Government Audits became self-sufficient by the establishment of an operating fund for its revenues and expenditures.

1997 – Biennial agency audits started to include a statement of revenues and expenditures and an appropriations statement.

2000 – Biennial agency audits switched to following the performance audit standards rather than the financial statement audit standards. This change was done in consultation with the Legislative Audit and Fiscal Review Committee.

2005 – The State Auditor received funding and authority to conduct the first information technology security audit of the state.

2013 – The first information technology security audit of the North Dakota University System was completed.

2015 – The Higher Education Audit Division established by N.D.C.C. section 54-10-30. Desktop support of computers was taken over by the Information Technology Department.