



Office of the
State Auditor

TESTIMONY TO SENATE APPROPRIATIONS

HB ~~1093~~ ¹⁰⁸⁴ – AMENDMENTS TO ~~BONDING COVERAGE~~ ^{Budget}

3/19/2021

Good morning, Chairman Holmberg, members of the committee, my name is Joshua Gallion, and I serve as North Dakota's State Auditor. I'm here today to discuss some of the updates and clarifications necessary to make N.D.C.C. 54-10 more effective.

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 to improve government through our team who is committed to generating greater value for taxpayers.

Today, I'll walk you through the number of updates and clarifications we are requesting to the chapter of the North Dakota Century Code that guides the work of our team at the Auditor's Office.

State Agency Defined

When I first started with this agency over four years ago, I challenged the staff to clearly define what our audit universe contained. The first thing we encountered was a lack of definition for 'state agency.' Including this definition in 54-10 will clarify for our team and our audit clients who exactly is required to have an audit completed by our office.

Simplify and Increase Thresholds

Currently, our office conducts audits of local governments in North Dakota based on arbitrary thresholds. Many local governments are required to have an audit completed once every two years — or instead of an audit — a required annual financial reports for:

- School districts with less than 100 students
- Cities with less than 500 residents
- Local governments with less than \$300,000 in annual receipts

The amendments our office is proposing would update verbiage to base the need for an audit strictly on revenue. The current thresholds set in law are arbitrary numbers, and there is substantial risk in cities and school districts that are receiving significant revenue and are not required to have an audit. For examples of these, please reference the appendix on page 5.

We strongly recommend that audits are based on the risk of an entity mispending taxpayer money rather than an arbitrary threshold. Evidence of this risk was most recently seen at the Oberon Public School District (student count of 64) audit ordered by the governor, with our team identifying ten separate areas of concern including \$230,595 in payments with no record of work provided.

As mentioned above, currently our office can require annual reports from local governments with less than \$300,000 in annual receipts rather than a full audit. Our office is proposing raising that revenue threshold amount to \$750,000. This threshold is already familiar to all local governments as this is the current federal revenue threshold to receive a federal Single Audit.

Example of how this update would impact school districts:

- Presently, 43 Public School Districts are not required to receive an audit. Out of this number, only 27 of them choose not to. Switching to a \$750,000 threshold would only impact 13 of those 27 Public School Districts.

Example of how this update would impact cities:

- Presently, 262 cities are not required to receive an audit. Switching to a \$750,000 threshold would only impact 19 of those cities.

Cost analysis overview if these updates are implemented:

There would be 50 water, fire, park, and other districts that would no longer need an audit if these changes are implemented. The total of these audits is approximately \$500,000. Because of these savings, **the total savings to the state would be \$276,000.**

- The cost for an additional 13 audits for school districts would be \$91,000.
- The cost for an additional 19 audits for cities would be \$133,000.
- The total cost of those audits for school districts and cities would be \$224,000.

Adjustment of Fees and Cap

The local government division is specially funded and runs similar to a small business – no general funds are used. The local government division charges the local governments we work with and any revenue generated is deposited into a special fund. All related expenses — including salaries — are paid from that same fund.

North Dakota Century Code 54-10-14 (2) states, “the state auditor shall charge the political subdivision an amount equal to the fair value of the audit and any other services rendered.”

Because of rising costs over the years, it is becoming increasingly difficult to cover the costs of these audits and reviews. Our office is proposing four adjustments to our fees to cover costs:

1. N.D.C.C. 54-10-14 (3)

Our office has not increased this fee in 12 years. We are proposing an increase of \$10 an hour to change our rate from \$80 an hour to \$90 an hour. ~~80~~ 86

Background on rate: In 1993 the rate was \$50 an hour. Increased to \$80 an hour in 2009.

2. N.D.C.C. 54-10-14 (4)

Our office has not increased this fee in 12 years. We are proposing an increase of \$10 an hour to change our rate from \$80 an hour to \$90 an hour. ~~80~~ 84

Background on rate: In 1993 the rate was \$50 an hour. Increased to \$80 an hour in 2009.

3. N.D.C.C. 54-10-27

Our office has not increased this fee in two decades. We are proposing an increase of \$40 an hour to update our rate from \$50 an hour to \$90 an hour. 65

Background on rate: In 2001 the rate was \$50 an hour. The rate has not increased since.

4. N.D.C.C. 54-10-14 (4)

This section allows our office to charge political subdivision a fee, not to exceed \$500, for the costs related to reviewing audit reports and working papers. We are proposing to increase that cap to \$1,000 ⁰⁰

both to reflect inflation since the cap was established 18 years ago and to allow us to conduct our statutory duty of reviewing working papers.

Background on rate: In 1993 the cap was added at \$500. The rate has not increased since.

Because there have been no adjustments to the cost for the past 18 years, this rate is not keeping up with inflation.

Our office is also charged with the responsibility of reviewing workpapers to ensure private firms are properly following audit standards. If this cap is raised, we would have the opportunity to provide feedback to local governments where risk is identified. Presently, because of lack of funding, our team is unable to conduct these risk assessments.

Elimination of NDUS Performance Division

This would eliminate the North Dakota University System Performance Division. This was purely done to satisfy the executive budget requirements. Regular audits of the North Dakota University System will continue — as always — through our Agency Division which conducts one audit of each of the public colleges and universities each biennium, including the system office.

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

APPENDIX A: \$750,000 Threshold Examples

Examples of cities with population < 500 that would receive an audit using the \$750,000 annual receipts threshold:

- *Arnegard* *pop. 161* *2018 revenue = \$3,507,963*
- *Peterburg* *pop. 172* *2018 revenue = \$4,700,072*
- *Oxbow* *pop. 308* *2016 revenue = \$4,193,531*
- *Alexander* *pop. 325* *2018 revenue = \$4,652,173*

Examples of public school districts with student count < 100 that audit using the \$750,000 annual receipts threshold:

- *Halliday PSD* *23 ct.* *2017 revenue = \$1,094,514*
- *St. Thomas PSD* *45 ct.* *2018 revenue = \$1,706,754*
- *Oberon PSD* *64 ct.* *2018 revenue = \$1,503,545*
- *Wing PSD* *79 ct.* *2016 revenue = \$1,875,352*
- *Drake PSD* *80 ct.* *2018 revenue = \$2,047,797*

Cities that are currently required to get an audit since their population is over 500

Name	2018 Population	Revenue Amount	Year Reviewed
Elgin	638	\$ 343,764.00	2019
Portland	590	\$ 457,724.00	2017
Edgeley	553	\$ 635,963.00	2019
Wishek	929	\$ 646,094.00	2019
Turtle Lake	563	\$ 659,785.19	2018

Examples of cities who receive an audit but wouldn't need to under new thresholds

27 cities currently receiving an audit that wouldn't have to if the threshold were changed to dollars & raised to \$750,000

Fort Yates	Gladstone
Flasher	Minnewaukan
Sawyer	Portland
Abercrombie	Westhope
Fairmount	Powers Lake
McClusky	Bowbells
Drake	Minto
Verona	Towner
Reile's Acres	Edgeley
Stanton	Dunseith
Elgin	Wishek
Hatton	South Heart
Gackle	Turtle Lake
Wyndmere	

Additionally, there would be...

- 5 airports
- 2 ambulance districts
- 1 area career & technology center
- 2 correctional centers
- 4 fire districts
- 2 public libraries
- 2 special education districts
- 5 park districts
- 8 soil conservation districts
- 8 water resource districts

...that also would no longer be required to receive an audit.